THE ECONOMICS OF RETAILING

BY

PAUL H. NYSTROM, PH. D.

Formerly Assistant Professor of Political Economy in the University of Wisconsin and, later, Associate Professor of Economics in the University of Minnesota

NEW YORK

THE RONALD PRESS COMPANY

1915

TO

MY WIFE

WHOSE DEVOTION
AND HELPFULNESS HAVE
MADE THIS WORK
POSSIBLE

PREFACE

This book aims to present fact material and to suggest constructive thought on the subject of retail distribution. It does not tell how to get rich quick at retailing. It presents but little theory and advocates no particular or special method of doing the work of the retail store. Its purpose is to describe the retail business as it is, and to point out the broad lines along which retailing progress is being made.

In this work the attempt has been made to reduce the knowledge about retailing to teachable form, and to make it usable alike to the ambitious, thinking man already in business and to the student who desires to gain an intimate insight into this interesting as well as important field of human work.

Except in fragmentary form, there has been but little written upon which the writer could build. The effort has been made, with what success the reader must judge, to bring together in one volume a summary of the best thought so far expressed; but much of the material presented is the result of the writer's own observation and experience in the retail business, and of what he has gathered in conference with over a thousand retail store managers and salespeople who were students in his classes in retail methods during the years 1909 to 1915.

Every part of the work has been tested by presentation to groups of people engaged in the retail business. Every point has been held up to the standard of practicability. It is to be presumed, however, that it is not free from error, and no one will be more glad than the writer to have these

errors pointed out. A science of retailing can become possible only by the freest and the most critical interchange of thought.

This preface may not be closed without an expression of the writer's personal indebtedness for inspiration and suggestions, to the members of the faculty of the Department of Political Economy, and particularly to Professor William A. Scott, Director of the Course in Commerce, in the University of Wisconsin.

Paul H. Nystrom.

New York City,
September, 1915.

CONTENTS

CHARTS

THE ECONOMICS OF RETAILING

CHAPTER I

DISTRIBUTION

To move goods from where they are, to places where they are wanted; to effect exchanges so that those who have merchandise to dispose of and those who desire to acquire merchandise may both be accommodated; and to get the goods from the producers and place them in the hands of the consumers — this is the problem of the distribution of goods.

The term "distribution" is used in another sense in the standard books on political economy. There it means the shares of income received by members of society for their participation in, or contribution to, the economic system. The term as used here has no reference to the income of any one. It refers solely to the processes of carrying and exchanging material goods, and, used in that sense, is but a part or a phase of what economic treatises call "production." Wherever the term distribution is used in this work it should be remembered that it means distribution of goods, and not what technical treatises on economic theory call distribution of wealth.

Attention has centered for years on methods of increasing the production of goods, of reducing the expenses of production, and of making the part played by labor in production relatively easier. Veritable sciences have been developed in engineering, in mining, and in agriculture. In the

producing of things in either field or factory a knowledge, almost exact, is at the disposal of the managers. As a result, a large part of the uncertainty formerly inherent in production is being eliminated. But this is not so in the distribution of goods to the ultimate consumers. Here we have a number of very important functions, such as transportation, insurance, banking, storage, and all that might be comprehended under the term marketing — the choosing of the right methods of distribution, the assembling, packing, sorting, handling, the buying and selling. These, save as to the first three, i.e., transportation, insurance, and banking, have received but little scientific attention — only that, in fact, which business men give to their practical affairs. Production has been the object of solicitous scientific study in laboratory and school, while distribution, except as to the three specialized phases named above, has been left largely to itself.

It can hardly be argued that this neglect of distribution is due to the small importance of the subject. It has been estimated that the costs of distributing goods exceed the costs of manufacture. The number of people engaged in the distributive occupations equal nearly one-sixth of the total number of gainful workers. The number of people engaged in the retail business alone exceeds the number of those in any line of manufacture, and is exceeded only by the number engaged in agriculture.

It cannot be that the distribution of goods has been so well done that no criticism could be made. Indeed, much of the fault for the increasing cost of living, whether rightly or wrongly, has been placed by many people upon the systems of distributing goods.

Two main reasons may be cited at this point, to explain why this important field of work has not received the study that it should. First of all, scientific progress is never made

in all lines at the same time. Advances are made in one thing at one time, in another at another time, etc. The development of the sciences pertaining to agriculture and engineering have made their greatest strides within the memory of men now living. These productive sciences are still in process of rapid growth. Why scientific development should have begun on these lines is obvious. Without product there could be no distribution. It is safe to say that the distributive system as it existed before the present age of factory production was both adequate and efficient for its time. The progress of production is what has made necessary the study and improvement of distribution.

The second reason why thorough-going studies have not yet been made in distribution is that the distributive process — the handling of goods and the work of middlemen — has been considered by the public as something in the nature of a necessary evil. Press and platform have united in giving the impression, indirectly at least, that distribution is less important than, and somewhat beneath, the productive enterprise. Economists have given practically their entire thought to analyzing production rather than distribution. Distribution has been taken for granted. To the public the mention of middlemen and their work has usually suggested only the thought of trickery or dishonesty.

Ever since the beginning of trade there has been a tendency to attribute mean qualities to the dealer, largely due, no doubt, to the fact that his earnings could come only by adding a profit to his purchases before selling them. Since no change was made in the form of the goods, people were inclined to reason that additions to the price were unjust impositions. It is not urged that no worse causes than this have helped to create the evil impression, but this in itself was sufficient to give impetus to the view, and probably accounts for the larger part of it.

"As a nail sticketh fast beneath the joinings of the stones, so doth sin stick close between buying and selling."[1] Such was the view of the ancient Hebrews.

Ancient Persians held commerce to be a school of lies.[2] The old Greek word for retail trader meant the same as falsifier. To retail and to falsify were synonymous. Aristotle, the great Greek philosopher said:

"Of the two sorts of money making, one, as I have just said, is a part of household management (agriculture and the hand trades), the other is retail trade; the former necessary and honorable, the latter a kind of exchange which is justly censured, for it is unnatural, and a mode by which men gain from one another." He then adds, "The most hated sort, and with greatest reason, is usury (charging interest for the use of money) which makes a gain out of money itself, and not from the natural use of it."[3]

Cicero went so far as to claim that no one could be proficient as a merchant without lying. *"Nihil proficiunt mercatores nisi mentiantur: mercatura, si tenuis, sordida putanda est."*

The Church of the Middle Ages likewise held strong views against traders. St. Chrysostom believed it scarcely possible that a man could at the same time be a Christian and a merchant. The canon law prohibited buying in order to sell again at a higher price. It was considered a sin to gain money in trade.

The old Italian words *"barulla," "treccone,"* and *"rivenditore,"* used to designate retailers, also signify covetousness, tendency to cheat, and vileness.

In Medieval England laws were passed against "engrossers," "regrators," and "forestallers." An engrosser was one who bought in order to sell again; a regrator one

1 "Ecclesiasticus," XXVII, 2.
2 Ely, "Problems of To-day," p. 23.
3 "Aristotle's Policies," Jowett's translation, p. 19.

who bought in order to sell in the same market or within four miles thereof; and a forestaller was one who bought goods before they came to market, and thus prevented them from coming to market in the hands of the producers.

Something of the same view has come down to modern times. Even Adam Smith, the founder of scientific political economy, warned the people against traders: "As during their whole lives they are engaged in plans and projects, they have frequently more acuteness of understanding than the greater part of country gentlemen. . . . The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. . . . The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it." [4]

Herbert Spencer wrote an essay entitled "The Morals of Trade," in which he enumerated a long list of shortcomings of the trading classes, but placed a large part of the blame for these on the customers and people at large.[5]

These two causes — on the one hand, the necessary primacy of production and its obvious relations to social welfare, and, on the other, the contempt for the occupations of distribution — very largely account for the slowness with which people have come to see any need for the study of the distributive processes.

4 "Wealth of Nations," Book I, Ch. XI.
5 "Spencer's Essays," p. 107 ff.

There are many indications of a coming change in this attitude, however. For example, writers no longer say so much about the dishonesty of dealers, though the jokesmiths and cartoonists still intersperse this idea with the mother-in-law, slow train, precocious child, accident to an Irishman, and other stock mirth provokers. Criticism is now generally leveled at the inefficiencies of the distributive system rather than at its crookedness.

This is a favorable sign, and one can well afford to pardon or neglect the crudeness of some of the suggestions that are offered as panaceas, since these suggestions indicate the working of a leaven that will sooner or later develop into solid research.

It must not be supposed from the foregoing that nothing has been contributed towards a practical theory of distribution, nor that the subject has received no serious thought at all. Three hundred years ago, Sir Francis Bacon, wrote:

"The wisdom touching negotiation, or business, hath not been hitherto collected in writing, to the great derogation of learning and the professors of learning. . . . For if books were written of this, as the other, I doubt not but learned men, with mean experience, would far excel men of long experience without learning, and outshoot them with their own bow."

In 1726 the first, and in 1727 the second, volume of a remarkable work appeared, entitled "The Complete English Tradesman." So far as is known, this was the first attempt to gather together in book form in the English language the maxims and principles of the best practice in trading and retailing as carried on at that time. The first volume was written to serve as a text-book for apprentices and beginners in merchandising. The second considers the problems that experienced tradesmen were likely to be interested in. Although now out of date, and in many places based on

defective economic theory (Mercantilism), there are within these two volumes many lessons of value even for dealers of the present time. The material was presented in a clear and most interesting manner. The author of this brilliant first effort in literature on trading is Daniel Defoe, well known to the world as the author of "Robinson Crusoe."

No attempt will be made to trace the literary development of this subject. That would require more time and space than can be given here. A few statements will suffice. The next notable contributions following Defoe's book seem to have been the work of economists, Adam Smith, Ganilh, J. B. Say, McCulloch, and others in Europe, while Benjamin Franklin in America did a great deal to popularize among merchants, clerks, and business men in general, much homely common sense and wisdom of value in the conduct of business. As has been said, the economists generally concerned themselves little with the processes of distributing goods, but, in developing their theories, they indicated the lines along which progressive thinking might begin. Besides their general theoretical studies, such subjects as banking, money, and credit, and, in the last half of the nineteenth century, insurance and transportation, came to be considered in detail. Foreign trade has been a subject given much consideration. Politicians have based many of their doctrines on economic grounds, thus bringing up much controversy over such questions as the tariff and taxes.

The turmoil of national and political life during the nineteenth century turned the currents of economic thinking largely into political lines. "The Wealth of Nations," "Political Economy," "National Economy," "Inquiry into the Nature and Origin of Public Wealth," "Political Economy and the Philosophy of Government," and "National

System of Political Economy," are titles of early works which show clearly enough the bent of their authors' minds. The production and distribution of wealth (distribution in the sense of the economists) was to them a matter to be studied in the light of its relation to government. Individual economics was left to care for itself. This tendency of political economy to emphasize the political side has continued down to the present. But, recently, several works have appeared that give considerably less space to the political phases and more to an explanation of the causes and influences operating on values, the processes of production, and of the market. These treatises are more generally denominated "Economics," "Outlines of Economic Theory," "Dynamic Economics," "Principles of Economics," and "Introduction to Economics." The change in emphasis from political to individual and private is to be noted in the tendency to use the word "economics" rather than "political economy."

One of the first books written in this country solely for merchants was B. F. Foster's "The Merchant's Manual," in 1838. Two magazines that gave considerable help to trading classes during the middle of the nineteenth century were *Hunt's Merchants' Magazine* of New York, first issued in 1839, and *DeBow's Review,* of New Orleans, begun in 1846. Hunt was a prolific writer on business topics, most of his material appearing in his magazine. J. D. B. DeBow, editor of *DeBow's Review,* was a professor of political economy in the University of Louisiana. His writings and editorial work were of a substantial sort, especially in outlining trade conditions in the South and West.

A number of books on business subjects appeared between 1850 and 1880. Some of the best known are mentioned in the following paragraphs.

Edwin T. Freedley's "A Practical Treatise in Business" passed through several editions. More than 20,000 copies had been printed by 1852.

Freeman H. Hunt's "Lives of American Merchants" appeared in 1858, and another work known as "Worth and Wealth, a Collection of Maxims, Morals, and Miscellanies for Merchants and Men of Business" had appeared in 1857. The material in both of these books first appeared in the form of magazine articles in *Hunt's Merchants' Magazine*.

Davies' "How to Make Money" was issued in 1867 followed by S. H. Terry's "The Retailer's Manual," in 1869. This latter work has run through 16 editions, and still has some sale under the title "How to Keep a Store."

J. A. Scoville's "Old Merchants of New York" appeared in 1876.

A noticeable characteristic of most of this early American literature on business is its grandiloquent and fulsome eulogy of individual business men whose records have since shown them to merit but a small part of the praise showered upon them. Another characteristic was its verboseness and flourish in announcing very simple and plain business methods and practices as if they were great discoveries. Still another was a general tendency to moralize at every possible opportunity. To exaggerate somewhat, the line of moral logic seemed to be something like this: Do these things and be good, and you will be rich; be rich and you will be happy. A large amount of this literature was distinctly intended for moral instruction. Much of it was written by ministers and temperance workers. Some of the following titles may suggest the character of the reading:

"The Merchants' Clerk Cheered and Counselled," "Mercantile Morals, or Thoughts for Young Men Entering Mercantile Life" (1852), "The Merchant's Clerk" (1852), "On the Road to Riches" (1876), "Sins of Trade and

Business" (1874), "The Bible in the Counting House, Lectures to Merchants" (1878).

Fashion affects the literature of business as it does the popular novels of the day. Moral teaching — much of it, unfortunately, mere cant — was the fashion in light business literature of the middle of the nineteenth century, much as the literature of "scientific management" rules the mode today. Not that no good came out of the former, nor that good is missing in the present fashion — for the former produced some lasting results, as will the latter; but these waves of thinking characterize our general mental progress. Each receding wave leaves behind some substantial products of lasting value which may be made of service if condensed, preserved, and crystallized in proper form.

The past ten years has seen such a flood of business literature as has never appeared before. It is out of all these efforts that an organized, systematic treatment of the subject is becoming possible. With the adoption of educational courses in schools and colleges dealing with distribution, the establishment of experimental distributive stations, the investigation of specific problems by careful unbiased methods, the accumulation of business facts by means of censuses conducted by the government, all of which have been proposed, and some of which are already under way, the hope of a science of distribution of goods stands a chance of realization in the near future.

In conclusion, the distribution of goods constitutes a problem whose importance has only recently come to be felt. In view of the advanced development of other industrial lines, it may not be too much to say that it is the biggest economic problem confronting the people of this country at the present time. It presents itself to the public in three different ways: First, it is desirable that those who are

to enter this field of work should be properly trained for performing their services. Second, careful studies need to be made to determine the most economical routes through which the goods may be transferred from the producers to the consumers. Third, in the interests of ultimate good to the consumers, fair practices in trading must be promoted, and efficiency encouraged.

In the following pages, one link of the distributing system — retailing — will be examined and described in the light of these three viewpoints.

CHAPTER II

THE DISTRIBUTIVE SYSTEM

The retail store or shop in some form or other exists in every civilized land. Wherever buying and selling commodities is carried on continuously, there spring up the necessary buildings and equipments that we visualize whenever we think of retailing. The form and development of the business carried on in retail stores have changed remarkably since the beginnings of such trade. A study of this development would be not only interesting but fruitful in understanding the present retailing institutions. Such a study must in the present case be omitted except for a few general statements.

In England the retail store is known as a "shop," and this term indicates its origin. A thousand years ago there were no retail stores in England such as there are today. Every home was practically self-sufficing, especially as to material needs. The food, the clothing, and the rude implements used were all made or prepared in the homes. The room or the outlying building in which things were made, was called the shop. As time went on, it was found more profitable for some members of a community or village to give their attention to one thing only, as for example, the spinning of yarns, the weaving of cloth, the making of shoes, the production of hats, and the shaping of iron and copper into tools or utensils. The surplus products prepared by these early specialists were traded for the products of others; thus each got for consumption a share of the

products of all in return for production of some one thing for all. There were at this stage no middlemen. Each man with a product to dispose of hunted up a man who had a product to sell, or waited for someone to come to his shop who wanted to make a trade. The weaver who wanted meat took his cloth to the home of the cattle raiser, and the shoemaker who wanted clothes for himself and family traded his shoes to the weaver and tailor in return for their handiwork. In this earliest type of exchange, the consumer and producer came together in every transaction. The ordinary place where the transactions were made was either the village market — usually some central, open space to which all who wanted to get or to dispose of goods came regularly on certain days — or the homes or shops of the people. To go about from one workshop to another in search of an article wanted was to "go a-shopping."

Later, some producers, who may have been too busy to go out to hunt customers or who did not have any liking or ability for the marketing phase of their work, began to turn their products over to other producers to market for them. These goods were usually stored in the shops of the latter to await the calls of customers, and it was only a matter of development over a few years when a number of these found that selling the goods intrusted to them took up so much of their time and proved so profitable that they gave up making goods on their own account and spent all of their time in marketing goods other people had made. Thus their shops, which had formerly been workshops, now became sales and store rooms, but the name clung to the establishments.

There developed out of the conditions of the handicraft stage a great number of one line or specialty shops generally located in the building that also served as the home of the family, as for example, in the cellar, or ground floor; and

consequently, to this day it is the custom in England and other European countries — much more generally than is the case in this country — for merchants to live in upper floors over their stores. Each kind of goods tended to be handled by a separate dealer; so there were found linen drapers, wool drapers, silk drapers, leather dressers, saddle makers, shoemakers, iron mongers, brass mongers, copper goods dealers, grocers, fruiterers, pepperers, fishmongers, and so on.

The importation of goods from other lands, such as silks, spices, fruits, and jewelry, contributed additional classes of shops. As trade in a shop expanded, and as the owner became more wealthy, it was customary for him to employ his surplus capital and energy in some sort of merchandising venture. In seventeenth century England, the following procedure was general: The merchant would buy up a cargo of English-made goods, send them abroad, trade them for other goods, and return with these to England where they could usually be sold at a good profit. However, there were great dangers in those days of a ship's never coming back. While the profits were good, the risks were great. To reduce the risk of the individual merchant, organizations known as merchants' stock companies were formed to finance a number of ships. In this way it became possible for a merchant to have his wealth invested in several ships, instead of all of it, or a large part of it, in a single vessel. If a ship were lost, its owner, if an individual, would be ruined, but if it was but one of a fleet owned by a company, the loss on no particular member was very important. These early companies were known as the merchant adventurers' companies. For two hundred years or more, these were among the most remarkable business organizations that existed. They were the forerunners of the modern corporation, of modern insurance and risk-taking

concerns, and of modern wholesale houses. With the growth of these companies began to arise a distinction in the use of the word "merchant." Only those who engaged in foreign trade on a large scale were so called, while inland dealers were simply called tradesmen and shopkeepers. This limited use of the word merchant prevails to the present day in England to a considerable extent.

The period of the merchant adventurers' companies marked the beginning of England's supremacy as a trading nation, and her success in this line gained for her, not inappropriately, the title, "a nation of shopkeepers." [1]

The collection and exportation of the products of England, and the distribution of imported goods over the island, called for extensive merchandising organization. The large warehouses established in the seaport towns were the prototypes and forerunners of the modern wholesale house. All inland transportation, other than by boat on the rivers, was by wagon and horseback. In the early part of the eighteenth century several of the great foreign-trade merchants not only had large sales warehouses in the seaboard cities, but also great trains of wagons and pack animals which were used in gathering up the grain, wool, woolen cloth, and other textile fabrics that England produced and for which she was famed the world over, and in delivering silks, spices, wines, metal goods, and novelties that had been imported from abroad and which were sold to the little shops found in every village. The great merchant trading concerns not only gathered up the products offered for sale in every little hamlet of England and transported them to the seacoast, but also stored, shipped, sold, and bought both in foreign and domestic markets, and assumed all risks connected therewith. Furthermore, they sold from their warehouses to

[1] A term credited to Napoleon Bonaparte, spoken of the English in derision; also used by Adam Smith, "Wealth of Nations," Book IV, Ch. VII, pt. 3; and by Dean Tucker in a tract published in 1766.

tradesmen who came to them, and also in wholesale lots to all comers at the great fairs that were then held periodically at various places in England and to which gathered traders, producers, and consumers. These great merchants also granted credit to the shopkeepers, and advanced funds to the producers, often long before the delivery of the products. Their systems provided for performing most of the work now carried on under the names of importing and exporting, wholesaling, transporting both by land and water, insurance, banking, and storage, as well as finding buyers and sellers for the goods in which they dealt.[2]

When the industrial revolution began in the latter part of the eighteenth century and factory production commenced to take the place of the old shop handicraft methods, the channels of distribution for factories through wholesalers and retailers were already fairly well developed. All that was needed was an extension of these channels to provide for the greater volume of goods made available for markets by the machine processes.

Wholesaling proper, apart from the importing and exporting business, came into existence with factory and large scale production. It was absolutely impossible after the introduction of modern machinery, for the producer himself to go out to find markets for his goods. Either he must employ a selling organization of his own, or sell his product to middlemen. Both methods were followed early in the development of the factory system. It was said to have been a common sight on England's roads to see a train of pack animals or of big heavy wagons loaded with cotton and woolen cloths setting out to find shopkeepers who would buy their season's stocks therefrom. As the managers of these trains sold the finished goods, they also bought raw

2 Defoe in "The Complete English Tradesman" (1726), pp. 388–407, describes very clearly and fully the systems of distribution existing in England at that time.

wool in every place where it could be had and accumulated a load for the return to the factory. Later it was found more profitable to send out men on horseback or in carriages with samples to show to shopkeepers and to take orders to be delivered from the wagons to follow. Thus originated the custom of sending out traveling salesmen or commercial travelers in England. Large numbers of "bagmen" or "chapmen," as they were called, were traveling England by the opening of the nineteenth century.

In finding markets wholesalers followed practices identical with those of the big producers. Specializing on marketing, building up an established trade, granting credit to retailers, and making advances to needy manufacturers, these wholesalers gradually became more successful in marketing than the manufacturers who did their own distributing. By the end of the eighteenth century, nearly all of the textiles sold in England were distributed through wholesalers, while those going abroad were handled by the exporting firms. The importing and exporting business had grown to large proportions and had also become specialized; the inland trade formerly carried on by the early merchant traders, whose work we have described, had gradually been taken over by the wholesalers.

The channels of trade developed rapidly but not at all systematically. Many wasteful methods were involved. During the eighteenth century, it was not uncommon for goods, such as woolen cloth, to go through as many as ten hands in passing from the producer to the consumer. Factors, brokers, carriers, great wholesalers, small wholesalers, merchants, and retailers multiplied; and strange as it may seem to people of today, this was held to be a good thing for England. In the early part of the century, Defoe expressed the current view as follows:

"The greater the number of hands through which goods

pass, the greater public advantage it is to the country it is carried on or managed in; and, therefore, it is not always the true interest of a manufacturer in this or that particular place, to shorten or lessen the needful expense of trade, though it should render the goods something the cheaper at market."[3]

The American colonies copied English methods quite closely. The importer was the real "merchant" and he served as the wholesaler as well, until American manufactures began to be established on a large scale, which was not until after the War of 1812–1814. Up to the time of the Civil War, practically all wholesalers were importers also.

The organized system of distribution as it existed up to 1860 included importers, who supplied foreign-made goods; brokers, who marketed the products of the New England textile mills; wholesalers, who were sometimes importers as we have seen, and who otherwise purchased from importers, brokers, commission men, and from producers direct; and retailers.

There were few commercial travelers before the Civil War. Retailers "went to market" to buy; that is, they visited the wholesaling centers — Boston, New York, Philadelphia, Baltimore, Chicago, Cincinnati, St. Louis, or New Orleans — twice a year. It was the custom to order at one time enough stock to last for six months, generally on from six to eight months' time. Losses due to bad debts were frequent, but the margins of profit were usually ample to cover such shortages. The panic of 1837, however, caused several wholesale and importing concerns, as well as other business concerns, to go into bankruptcy because of inability to collect their accounts. This experience resulted in their taking more care in the granting of credit than had previously been customary. Systematic efforts were there-

3 Defoe, "The Complete English Tradesman," pp. 109, 110.

after made by some of the larger concerns to learn about the financial standings of their customers. Men were sent out on the road — the first commercial travelers in this country — to visit the retailers periodically, learn how they were getting along, collect moneys due, extract settlements from delinquents, and to make friends for the wholesale house among those not already customers. These men sold little or no goods as a rule and the system proved to be most expensive and one that only the largest concerns could afford. The opportunity for a new kind of business enterprise had arisen, namely, the mercantile agency.

Shortly after the panic of 1837, a Mr. Church established in New York a bureau of credit information whose purpose it was to serve wholesalers who desired information concerning out-of-town merchants buying from them. About 1840 the first mercantile reference book was issued. The first mercantile agency was established in 1841 by Lewis Tappan in New York. A second was established in 1842 under the name Woodward and Dusenbury. The Bradstreet Company was founded in 1849 by J. M. Bradstreet, who, as a salesman previous to 1849, had collected a great deal of information about his own customers. Later the firm of R. G. Dun & Company came into existence, taking over the business built up by Lewis Tappan. Other concerns entered the field and for years the competition was keen, but the two last named are now practically alone in the field of general mercantile agencies. To a certain extent special industries are represented by special credit-reporting agencies.

The mercantile agency is a purely American institution. No country in Europe has anything like it. In England, banks furnish their customers with information concerning the standing of parties in trade, but in this country the development of this function among banks was next to im-

possible. In the first place, banks were failing, suspending specie payments, and were subject to great suspicion at the times when the desire for mercantile credit information was strongest, namely, during and after the panics of 1837, 1843, and 1857. The country had grown so rapidly in trade, and particularly in the extent of territory over which this trade was transacted, that the small banks of the wholesale centers of the time had neither the incentive nor the ability to keep track of commercial conditions in such a way as to be of real service to the commercial interests of the country.

Another reason why the banks of this country did not develop the credit information function for their wholesalers, was that there was no central bank through which such information could be collected for the whole country and transmitted to the places where it was needed. Thus the mercantile agencies came into successful existence.

Naturally there was considerable opposition to the methods of the mercantile agencies. It was considered as an imposition by many retailers to have a third and outside party prying into their business affairs. Every attempt to get information directly by these concerns was opposed by large numbers of business men. Magazine and newspaper articles were written against the system. Even as late as 1896 a book entitled "The Mercantile Agencies Against Commerce: Are We a Nation of Swindlers and Liars?" appeared, written by W. Y. Chinn, violently opposing the agencies. This spirit has now largely passed away. Antagonism towards the agencies has been largely replaced by confidence. A great number of merchants today furnish the mercantile agencies with signed statements showing the exact condition of their respective businesses.[4]

[4] Earling, P. R., "Whom to Trust," pp. 295–304; Boulter, J., Mercantile Agencies and Their Work, in "Trade and Commerce," pp. 372–394; Masterson, E. D., The Mercantile Agency, in "Modern Merchandising," Vol. VI, pp. 87–

The present-day practice of sending out traveling salesmen to solicit trade from retailers seems to have originated in two ways. As has already been indicated, the "commercial travelers" who were sent out by wholesale houses to ascertain the financial conditions of customers and to make collections, began to take orders for goods as part of their regular duties. There was another type of employee in the early wholesale houses whose work finally grew into traveling salesmanship — the "drummer." The drummer, at first, was employed by wholesale houses to hang around hotels and watch for the arrival of retail merchants from out of town. When a merchant arrived he became the special recipient of every kind of appeal to get him to come to the house represented by the drummer to do his trading. "The country merchant is booked on his arrival, is captivated by courtesy, is attracted by appeals to each of his appetites and passions, is coaxed, decoyed, and finally ensnared or captured."[5]

Later, as competition among the wholesalers grew keener, the drummer was sent out to see retailers in their home towns, to get their promise to come to the house when in the market, and to take orders whenever possible. As the practice of small-town merchants going to market periodically decreased, the work of selling to the retailer in his own store or home became more and more important. Today, a very large part of the business between retailers and wholesalers is transacted through the medium of traveling salesmen.

As early as 1860 a number of traveling salesmen were employed by wholesale houses in New York, Chicago, Cincinnati, and other jobbing centers.[6] After the Civil War

92; *Bankers' Magazine* (1858), 12:545; *Hunt's Merchants' Magazine* (1851), 24:46.

[5] Freedley, E. T., "United States Mercantile Guide" (1856), p. 204.

[6] *Bankers' Magazine*, 12:545 ff; Briggs, "Fifty Years on the Road," Ch. II; Yeakle, M. M., "St. Louis of To-day," p. 315.

their number increased very rapidly. Chicago wholesale houses sent their representatives out over the Western prairies, beyond the terminals of railroad and steamboat navigation. Traveling salesmen with their trunks loaded on wagons followed the pioneer trails to mining camps, lumber camps, trading posts, and everywhere that a store existed. Some of them drove across the mountains to Utah and even to the Pacific Coast. Chicago's supremacy over St. Louis as a wholesale center was largely due to this early hustling, and the Eastern drummer in the Northwest was declared to be a thing of the past in a statement made in the *Chicago Tribune* Annual Review of Trade and Commerce for 1869.

With the beginning of this system, short credits gradually displaced long credits, and the discount for cash began to be generally adopted. Frequent visits of the salesmen made it possible to order in smaller lots; hence merchants were able to keep a much wider variety of goods and to follow the changes in fashion more easily. By the introduction of this new system of retail store buying it was made possible for great masses of the people to satisfy their desires for fashions in a way that had never before been possible. Henceforth the problem became, not whether fashion was to change or not, but rather how soon it was to change. Whether for good or evil, the length of time formerly interposed between production and consumption was generally reduced. Not only did this make frequent changes in fashion possible, but it opened the way to the later development of large-scale production of perishable goods, foodstuffs, and so on. Some of the most remarkable developments in the distributive system during the last twenty-five years have been the adaptations in methods made to facilitate very rapid distribution over wide territory.

The development in this country of the retail store and

its selling methods is fully as interesting as that of the wholesale house. In nearly every large center, the earliest store was a trading post where furs were purchased from the Indians and trappers, and goods of various kinds given in exchange. The trading post was followed by the general store, a type that is still found in a great many country towns. The general store is perhaps the most typical American development in merchandising institutions, since very few like it are to be found anywhere else in the world. The old-time general store distributed dry-goods, hardware, groceries, drugs, and even liquors. It was frequently the location of the post-office, and served as the village social center for the men. The old box stove, the rickety chair or two, the near-by barrels, and the sawdust spit box, were the almost universal furnishings that equipped it for its social services. Here politics, religion, and neighbors were discussed. It may not be too much to say that here the tariff question, the government bank, internal improvements, foreign policies, and other important government matters were ultimately settled. Certainly statesmen had to reckon with the forces of public opinion generated and cultivated around the stove of the country store. With all its inefficiency, its wasteful methods, and its shortcomings, as a retail establishment, it must be said that it successfully served its day as probably no other type of institution could. Many general stores still exist and will for years to come. But with increasing density of population and a rising standard of living, the general store as such must give way to other types of retailing institutions.

The specialty, or one-line, store represents the next stage in the development of retailing in this country. When the demands of the people of the villages became numerous, when the variety of goods offered in the general merchandise store became unsatisfactory, then came the one-line specialty

store — the drug store, hardware store, agricultural implement dealer, dry-goods store, grocery store, the meat market, men's furnishings and clothing, and so on. Of these types of stores, and still later forms of retail institutions, such as the department stores and mail order houses, we need say no more in this place. Ample space is given to each of these types in later chapters.

In conclusion, the modern distributive system consists essentially of two middlemen between producers and consumers — the wholesaler and the retailer. The wholesaler buys in large quantity, and in wide variety, generally from many producers, assembles these stocks, stores them for seasonal demands, oftentimes sorts and repacks the goods, and then finds the customers and supplies them with suitable quantities at suitable times. Credit relations are established, the importance of which may be inferred from estimates of the average amount of credit granted to retailers. Such estimates run from $400,000,000 to $750,000,000; that is to say, while retailers are always paying up their debts to wholesalers, their purchases in advance of payment always run up into the hundreds of millions of dollars. It is not unusual for a wholesale concern to have as many as 25,000 or even more customers' accounts upon its books. Thus, in addition to its other functions already named, the wholesaler is a great accounting and credit agency in our business system.

In the lines he handles, the retailer assembles the goods for his particular community. In his store he keeps these goods, presumably, in cleanly condition, preserved from extremes of heat and cold, from decay, from fire, and other forms of destruction to which all goods are subject. He demonstrates or shows the consumer how the goods are to be used. He sells and generally delivers them. Taking

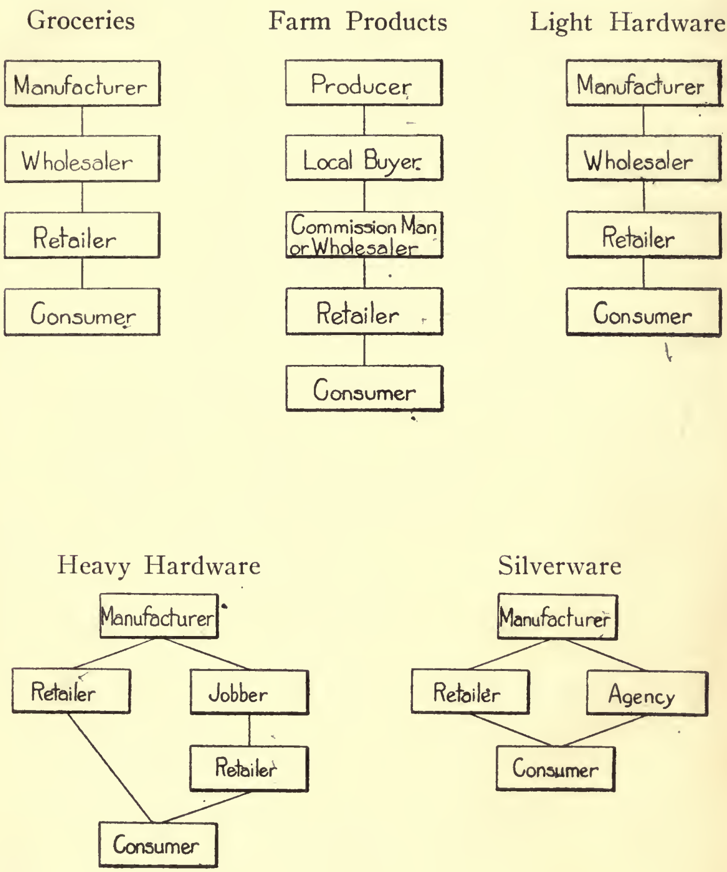
the country as a whole, the retailer likewise extends an enormous amount of credit to his customers.

Distributing goods through wholesaler and retailer may be called the customary or regular channel of distribution. From this method there are many variations. In some lines there are more than these two links, while in others the two have been concentrated into one. The struggle for markets among producers both large and small have tended to make distribution very complex; and where competition is free and unchecked, changes from one system to another are both frequent and abrupt. So-called eliminations of middlemen have proceeded from both ends of the system. Many large retailers, such as the department stores, have sent their buyers direct to the producers to procure supplies, while many of the producers have gone direct to the retailers and even to the consumers with their goods. There has been a good deal of experimenting and some changing back and forth. Not all changes have been made in the interests of economy. Friction with present systems has been not the least among the causes for establishing new channels in many cases. As an illustration of the number of methods of distribution employed by large producers, it is a fact that out of 102 concerns doing national advertising, 17 sell to jobbers, 18 to retailers, 11 through agencies, and 8 to consumers direct; 29 sell to both jobbers and retailers, 13 to retailers and through agencies, 4 to jobbers, retailers, and through agencies, 1 to both consumers and retailers, and 1 to jobbers, retailers, and consumers.[7]

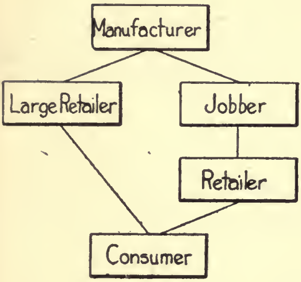
To give a clear idea of the customary channels of distribution in the main lines of trade passing from the producer to the consumer through retail stores, the following charts are presented:

7 *Printers' Ink,* Sept. 12, 1912.

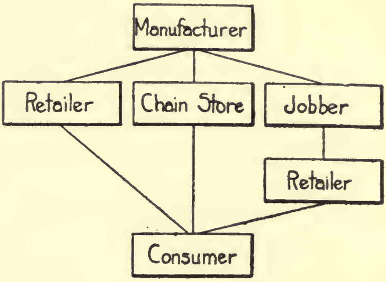
THE CHANNELS OF DISTRIBUTION FOR VARIOUS LINES OF GOODS



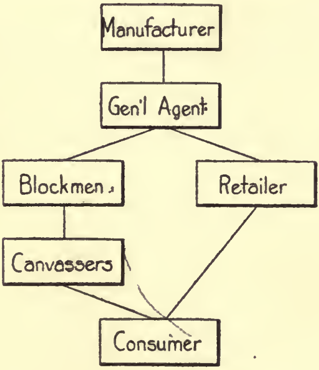
Drugs



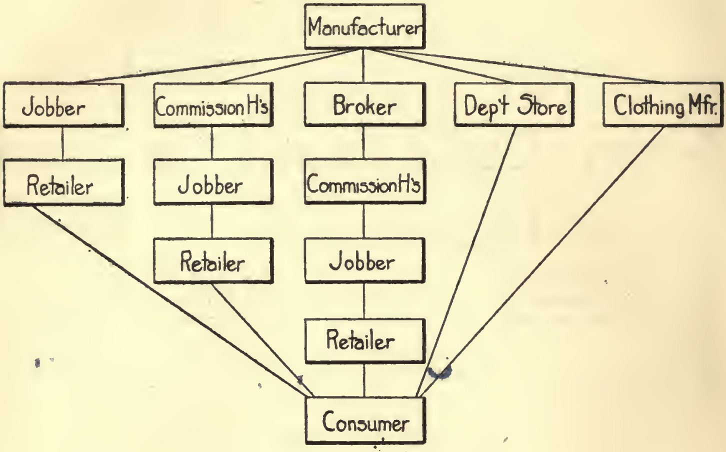
Shoes



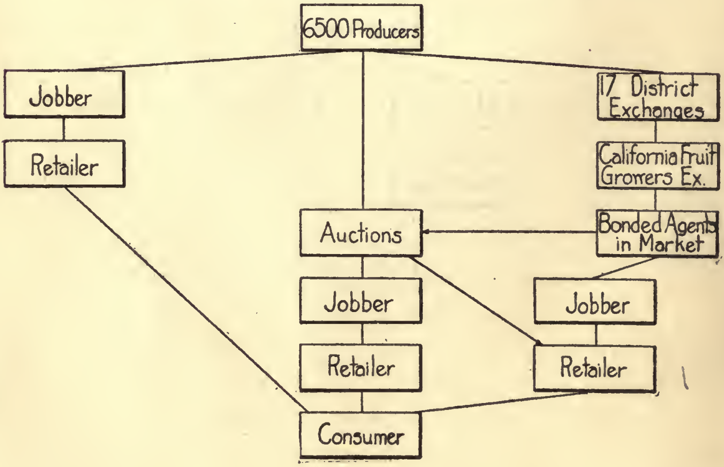
Harvesting Machinery



Textiles



Co-Operative Fruit Marketing



CHAPTER III

THE CONSUMER

The function of the retail store is to provide its customers with the goods they want — when, where, and how they want them. Efficiency in retailing consists in furnishing this service satisfactorily and economically. This service must be satisfactory to the consumer in order to gain his good will, and it must be economical in order that it may not cost the consumer any more than is necessary. Under competition the concerns that can perform this service most economically are able to reap the greatest net profits. Progress in retailing should lead continually to better and better service at relatively lower costs.

In planning the work of a store it must be borne in mind continually that the consumer is the party that ultimately determines what shall be and what shall not be in the retailing as well as in the entire business system. What may at one time and in one way seem very satisfactory and most economical to the retailer, may not be satisfactory at all to the consumer and cannot therefore result in success. It may be said, perhaps, that the best-planned system of retailing from a theoretic standpoint might not be suitable for a given community or even for any part of the whole country, simply because consumers as a class may not be ready to appreciate it as such. There must be development on both sides in order that the system of distribution may progress. The consumers' point of view is fundamental. It may be changed and is constantly changing, but unless the retailer

is able to make his business accord with it, he stands little chance of continuing in business. In fact, it may be asserted that success in retailing depends entirely upon finding out what the people want and then performing that service for them as economically as possible.

Who are the consumers? What do they want?

The consumers of the country are its hundred million of men, women, and children. What they want depends upon their respective ages, sex, habits — social and personal — and their occupations, and how much they want depends largely upon their incomes or wealth.

Under most circumstances, demands for goods come only from adults or persons above the ages of childhood. Parents select goods not only for themselves but also for their children. This is the rule the world over. But in this country there are several notable exceptions. Children of foreigners learn the English language much more quickly than their parents, hence frequently serve as interpreters for the family. They begin to read the English advertising, study the goods at the stores, and are influenced by fashion changes more quickly than their elders. To some extent, children thus buy or influence the buying, not only of goods for themselves, but also for their homes.

Among the American people of the richer classes, the birth rate of children has fallen off markedly during the last fifty years, and this tendency to reduce the number of children per family has probably not yet reached its limit. One of the effects of this tendency of interest to distributors of goods, particularly retailers, is that, as there become fewer children per family, the attention given to each child increases. This attention takes two forms, one to supply all its needs and demands much more completely than could otherwise be possible, and, second, to give more freedom to the child to satisfy its own demands. The fewer the chil-

dren, the more the money for each child to spend. In consequence, children of native-born parents especially, begin to demand and to buy goods of a great variety at an early age. Children's movements such as "Boy Scouts," "Campfire Girls," marble playing, baseball, roller-skating, and so on, sweep over a town with remarkable rapidity, simply because the wherewithal to supply the necessary material equipment is provided to the child by its parents when wanted. The present has been called the "age of the child," and this should be a matter of significance to the retailer in making his plans. The store must be arranged to show its goods in a way to appeal to the age of people who constitute its customers. What suits one age may not suit another. The growth of the influence of children in the markets and merchandise of this country during the last generation is much greater than is generally realized.

Sex makes a great deal of difference in demand, not only in the obvious differences in the goods used, but also in the manner in which the goods are bought from stores. It is commonly asserted that it takes more time, and that it is harder to please and to sell to women than to men. It is probable that many of the differences that have been pointed out between the sexes in their buying habits are exaggerated, but there are certainly differences that need to be noted.

A generation ago women's time was so completely taken up with the household industries in the home, many of which are now performed in factories, that they had very little time to spend in shopping. Then men did practically all of the buying for their families. Now this practice is quite reversed. Women have been set free from a great deal of the arduous hand labor characteristic of the past, and have become purchasers rather than producers of the products needed in the home. It has been estimated by a number of people that, at the present time, at least 75 per

cent, possibly more, of the goods used in the home are purchased by women. This applies not only to goods used by the women themselves and by children, but also to foodstuffs and house furnishings. Even men's clothing, particularly furnishings, are now purchased very largely for them by women. The woman is the purchasing agent for the home in an increasingly large number of cases. Retailing in all lines must take this into account.

Women are harder to sell to than men because as a rule they have, or think they have, more time to shop than men do. Practice in looking over stocks of goods affords them much real enjoyment. Most women like to shop. Only a few men, relatively speaking, enjoy shopping. Women, as a rule, rely more on their own senses and less on brand names than men do in buying. They also read descriptions and note details more carefully. The struggle of American families for social place and for more complete satisfaction of a very wide variety of wants causes many women to think more of the pennies than men do. For this reason, sales at reduced prices mean much more to women than to men. The problem of making a little money go a long way under pressure of an increasing cost of living is one that women are meeting by giving more and more careful attention to details in their shopping. Still another factor to be considered is the specific instruction now being given to young women in hundreds of schools in domestic science, in studies of textiles and foodstuffs. Such education will tend to make women still more critical purchasers, and the retail store must be adapted to meet this development.[1]

[1] Other sex differences may be noted briefly as follows: Scientists affirm that women are less often color-blind than men. It is asserted that a woman has a much wider range of vision than a man has. With her eyes fixed straight ahead she observes persons and things farther right and left than men do. Women excel men in grasping the meaning of, or comprehending, paragraphs. "Women go in flocks, and in social matters are less prone to stand out with salient indi-

Since women are now the chief customers of retail stores in practically all lines, the stores must seek to meet women's standards and demands rather than men's. What was satisfactory to men in the past is not wholly satisfactory to women now. Retailers who have grasped this idea and have made their stores conform to it in such details as cleanliness, fixtures, lighting, decorations, display of goods, and personal service, have reaped large rewards, while those who have not observed these changing conditions have passed out in failure.

Habits of customers are exceedingly important factors in determining how a retail store shall be carried on. We may distinguish between those that many people possess in common and those which only single individuals have. The first may be called social habits, customs, and conventions, and only the latter are designated simply as habits. Of the two classes, the social habits are most important in laying out the plan of a store's work and its general policies. The latter must be met by the individual salesmanship of the retailer and his clerks.

Customs depend upon race, nationality, and community. There are national foods, drinks, and clothing. There are types of architecture and house furnishings that are peculiar to, or at least originate in, certain countries. What one race of people may like, another race may find very distasteful. In a country such as the United States where all

viduality. They are more emotional, altruistic, intuitive, less judicial, and less able to make disinterested and impersonal judgment."

"Women excel in memory." A woman's thoughts are more concrete and are more likely to relate to practical things of interest to herself. Men theorize and generalize more. Out of 483,517 patents recorded in Washington up to October, 1892, only 3,458 were by women. Women are more tactful and are able to extricate themselves from difficulties more readily than men. "Old women are likely to be talkative, while old men are glum." "Male crime to female is as 6 to 1." "She is about as superior to man in altruism as she is behind him in truth-telling, being more prone to ruse and deception."

"Influence and suggestion are more potent than argument with women. They are more emotional, blush and cry easier; and are more often hypnotized. They have more sympathy, pity, charity, generosity, and superstition."

Hall, G. S., "Adolescence," Vol. II, pp. 561–567.

races are found, these racial and national variations constitute a big problem for the distributor.

For example, it is said that the French people eat little or no cereal for breakfast. For them breakfast foods have no appeal. Sour-tasting foods are much favored by the Germans. The English are great consumers of tea and crackers. Olive oil or imitations of it are much in demand among the people from South Europe, and everyone has read and heard of the part played in food supply by beans in New England, red peppers in the Southwest, corn bread in the South, potatoes in Ireland, oatmeal in Scotland, rice in Japan. The usual statements regarding the use of these foods by nations are greatly exaggerated, but the kernel of truth is suggestive to the retailer. A store in a community made up mostly of Germans must offer a somewhat different supply of goods and furnish a somewhat different service than that demanded by people in communities made up of French, English, or other nationalities.

Community habits are of more direct significance still. The resources of the region, the development of social standards of consumption, and the gradual unification of wants according to the classes of people found in the community, are factors making for definite lines of merchandising. Country districts differ from small-town communities, and the latter from large towns and cities. The relationship of the store to the community in each case is somewhat different, and the power of the retailer to vary the conditions set before him also differs.

Manufacturers recognize differences in the character of demand in various parts of the country. "Metropolitan" and "Western" styles are two distinct classes. Groceries, soaps, and so on are put up in certain ways for "Southern trade." Maps might be made of the country showing divisions not by states but by parts of the country where various

kinds of goods are consumed. Thus green tea areas would be found largely separated from black tea areas, mackerel-eating areas from herring areas, and so on. We should be able to locate sauerkraut areas, corn-bread areas perhaps, extreme-styles areas, conservative-styles areas, carpet-using areas, rug-using areas, in addition to areas producing specific products used very largely at home. In the big cities of the East brown colored eggs are considered choicest, while in San Francisco white eggs are considered most valuable. Corn meal must be somewhat yellow in the North, but white in the South. The extent of such differences and their effects on distribution — matters that are but imperfectly understood at the present time — constitute one of the big problems of the economical distribution of goods.

Notwithstanding the differences, there are a sufficient number of similarities to warrant some general statements. For example, in dealing with the subject, "Consumers' Fancies," a writer in the Year Book of the U. S. Department of Agriculture (1904), page 434 and following, called attention to certain factors in consumers' demand that will interest retailers, particularly grocers:

"The consumer has a fondness for red, white, and the colorless, and sometimes for yellow when reinforced with large size. Gloss, polish, and luster are wanted. Things should be large, and when applicable, of plump appearance; they should be uniform in size, shapely, and with ornamental lines. A convenient and showy package is appreciated and a product, trade, or producer's name, once established favorably, catches the fancy of customers often more easily and securely than anything else."

The extent of demand depends not only upon customers and conventions, but also on spending power. Demand is like a coiled spring under pressure. The pressure is the limit set to spending by the limits of the pocketbook. But

the use of income is not in all communities the same. Much depends upon whether the families own their homes or not, whether they are secure in their source of income or not, and upon the prospects for future prosperity in the community. People who rent their homes, as a rule, spend a larger share of their total income for daily needs than people who are buying and paying for homes. The spirit of economy is stronger in the latter case. Prospects of future plenty, as for example, good crops, a growing or booming city, incoming industries, and other evidences of community prosperity, tend to cause the people to spend more freely whatever money they may have than is the case under indications of hard times, retrograding business, and so on.

General statistics of family incomes are of some value, although when applied to any given locality, they need to be qualified to suit the peculiarities of that locality. The table on page 49 was published by *Printers' Ink* in 1911, from such census statistics as were available. It is probably not free from error, but it will serve the purposes of this chapter, which is merely to indicate the outlines of the consumer problem.

The total income of $22,800,000,000 is divided among savings and expenses, and estimates on outlays for consumers' goods run as high as $20,000,000,000 annually. The usual classifications of expenses are as follows, in the order of their importance:

Food
Rent
Clothing
Fuel and light
Miscellaneous items

Omitting rent, since this item is not dealt with through

PROBABLE INCOME OF FAMILIES IN THE UNITED STATES, 1910

Classes of Incomes	Number of Families				Family Incomes	
	Farm	Urban	Total	% of Total	Millions of Dollars	% of Total Income
Under $400	2,454,000	3,630,000	6,084,000	32.2	2,275	10.0
$400 to $600	1,510,000	2,367,000	3,877,000	20.5	2,175	9.5
$600 to $900	1,197,000	1,503,000	2,700,000	14.3	2,325	10.2
$900 to $1,200	891,000	1,130,000	2,021,000	10.7	2,325	10.2
$1,200 to $1,800	286,000	1,500,000	1,786,000	9.4	2,775	12.2
$1,800 to $3,000	....	1,446,000	1,446,000	7.7	3,400	14.9
Total under $3,000	6,338,000	11,576,000	17,914,000	94.8	15,275	67.0
$3,000 to $6,000	172,000	532,000	704,000	3.7	2,975	13.0
$6,000 to $15,000	....	222,000	222,000	1.2	2,025	8.9
$15,000 to $60,000	....	43,000	43,000	.26	1,115	4.9
$60,000 and over	....	7,000	7,000	.04	1,410	6.2
$3,000 and over	172,000	804,000	976,000	5.2	7,525	33.0
Total	6,510,000	12,380,000	18,890,000	100.0	22,800	100.0

retail stores, the following is presented as one of the typical estimates of national consumption in several lines of goods:[2]

Food	$6,552,000,000
Men's clothing	686,400,000
Women's clothing	520,000,000
Children's clothing	972,000,000
Shoes	520,000,000
Furniture	520,000,000
Books and papers	166,400,000

The following estimates of consumption in specific lines have been drawn from various sources:

Sugar	81.6 lbs. per capita	(1910)	U. S. Statistical Abstract
Coffee	10.0 " " "	(1911)	U. S. Statistical Abstract
Cocoa	1.25 " " "	(1910)	U. S. Statistical Abstract
Tea	1.4 " " "	(1911)	U. S. Statistical Abstract
Shoes	$8.44 " "		*Good Storekeeping,* I:2
Wool	5.25 lbs. " "		U. S. Department of Agriculture
Cotton	20.0 " " "		U. S. Department of Agriculture
Tobacco	5.7 " " "		U. S. Department of Agriculture
Soda water	$1.20 " "		*Drygoodsman,* Aug. 26, 1911
Alcoholic liquors	$21.85 " "		Bradstreets', June 25, 1910
Crackers	$1.00 " "		National Biscuit Company
Flavoring extracts	$1.00 " "		Joseph Burnett Company

Another and more scientific way has been used in arriving at per capita consumption, and that is by getting the figures from the consumers themselves. A number of such investigations have been made during the last sixty years, but in the nature of the case each was limited in scope. The results of these investigations were very well summed up in the report of the Massachusetts Cost of Living Commission in 1910. This summary will be found in Appendix I, from which the following sentences are quoted: "It would be safe to deduce from these tables a few generalizations about the expenditure of the income of a workingman's

2 "National Advertising the Modern Selling Force," p. 44 (Curtis Publishing Co.).

family under normal conditions. For weekly incomes of from $12 to $18 a week, the income would usually be spent about as follows: rent, 18-20 per cent; fuel and light, 5 per cent; clothing, 14 per cent; food, 43-45 per cent; sundries, 15-17 per cent. This analysis may not fit the expenditures of many families, but it would probably be found that normal families with incomes of the amount stated tend to approach these figures."

The following table is quoted because it gives in greater detail the items of expenditure for typical workingmen's families:

AVERAGE EXPENDITURE OF 2,567 WORKINGMEN'S FAMILIES FOR EACH OF THE PRINCIPAL ITEMS ENTERING INTO COST OF LIVING AND PER CENT OF AVERAGE TOTAL EXPENDITURE, 1901.[3]

Items of Expenditure	Expenditure Based on All Families	
	Average	Per Cent of Total Expenditure
Food	$326.90	42.54
Rent	99.49	12.95
Mortgage:		
Principal	8.15 *	1.06
Interest	3.98 †	.52
Fuel	32.23	4.19
Lighting	8.15	1.06
Clothing:		
Husband	33.73	4.39
Wife	26.03	3.39
Children	48.08	6.26
Taxes	5.79	.75
Insurance:		
Property	1.53	.20
Life	19.44	2.53

* Including interest paid by 13 families.
† Not including interest paid by 13 families, included in principal.

3 From Eighteenth Annual Report of the U. S. Commissioner of Labor, p. 648.

Items of Expenditure	Expenditure Based on All Families	
	Average	Per Cent of Total Expenditure
Organizations:		
Labor	3.87	.50
Other	5.18	.67
Religious purposes	7.62	.99
Charity	2.39	.31
Furniture and utensils	26.31	3.42
Books and newspapers	8.35	1.09
Amusements and vacations	12.28	1.60
Intoxicating liquors	12.44	1.62
Tobacco	10.93	1.42
Sickness and death	20.54	2.67
Other purposes	45.13	5.87
Total	$768.54	100.00

The averages presented in the preceding tables represent standards which may be fairly representative of whole classes of our population, but from which individual families vary. It is probably true that most people consume amounts close to the average for their class; but in planning a retail-store selling system it is necessary to go still further and ask what causes the variations from the average and what the likelihood is that there may be such variations. Every family must have food and clothing, but some families will economize in food in order to buy more clothing, while others will do the opposite. Which a particular customer will do will depend much upon personal habits, personal peculiarities, and the strength of the appeals made for the goods of the various classes by advertising or by salesmen. In an investigation made by the *Chicago Tribune* in 1913 as to why some 30,000 housekeepers had purchased certain food products, it was found that —

55% of the housekeepers were influenced by retailers						
36%	"	"	"	"	"	" advertising
6%	"	"	"	"	"	" friends

It is clear, therefore, that the suggestion and salesmanship of the retailer was a powerful factor in introducing new articles to the customer. Added to this is the influence of advertising, calling for the use of funds in a hundred different ways.

The saving instinct in some, the love of finery, the standards of spending of the class to which the consumer aspires to belong, the appeal of the goods themselves — as for example, that they save time or labor, or give comfort, protection, or pleasure — all tend to have their effect on the ultimate division of the family income between the various classes of goods. What constitutes a strong appeal to one may not have any influence with another. It is only in the most general way that we can say that all people's demands for goods are alike.

"Consumer-demand"[4] is constantly changing. With this fact everybody is familiar. In foodstuffs, desire has increased for greater variety and finer quality. Attention is now being given as never before to the appearances of food, its flavor, taste, and its appeal to the æsthetic senses. In clothing, fashion now rules among practically all classes. Clothes no longer wear out; they pass out. Faded or threadbare suits are rarely ever seen. In the homes there has grown up a demand for more room, more light, more fresh air, and for a well-regulated temperature. Furniture and furnishings as well as the building itself are touched by fashion and conventionality. The standards of classes en-

[4] "Consumer-demand" is a term that has recently come into use among producers who are national advertisers. It is used in contradistinction to "dealer-demand." The meanings are obvious.

joying leisure and wealth have been selected as the types for popular imitation, moderated to a limited extent by the influence of culture spread by the schools and literature now enjoyed by all classes.

Illustrations of these changes are available on every hand. Families no longer lay in "a winter's supply" of any kind of food. Such storing of foods is no longer necessary. The means for better storage on a large scale have been invented, and the people have gladly availed themselves of these and thus eliminated all the risk and trouble connected with collecting and storing foods at home for long periods. The waste, the spoilage, and the capital formerly tied up in the big family supplies, as well as the labor of canning, preserving, and pickling, and the general lack of variety characteristic of this way of doing things, has been largely eliminated by the introduction of this large-scale commercial cold storage, by the wholesale canning and preserving of fruits and vegetables, and by the preparation of foods for distribution in small parcels or packages.

A general idea of the extent to which this process has been carried and the possibility of a varied diet today as compared with that of a generation ago when there were no canned goods other than those prepared at home, can be gained from running over the following list of canned goods. This is by no means complete, but represents fairly the goods a modern grocery store expects to supply its customers.

Apricots, anchovies, apples, apple sauce, artichokes, asparagus, baked beans, lima beans, kidney beans, string beans, wax beans, blackberries, black raspberries, red raspberries, strawberries, huckleberries, beets, brown bread, carrots, cauliflower, celery, cherries, clams, corn, crabs, cranberries, cranberry sauce, currants, dandelions, figs, fish, game, grapes, guavas, gumbo, hominy, jams, jellies, catsup, lentils, lobster,

meats, milk, mincemeat, molasses and syrups, mushrooms, nectarines, okra and tomatoes, oysters, parsnips, peaches, peas, peppers, pigs' feet, pineapple, plum pudding, plums, poultry, preserves, pumpkins, quinces, rhubarb, salmon, sardines, sauce, sauerkraut, shrimps, soups, spaghetti, spinach, squash, succotash, sweet potatoes, sprouts, tamales, terrapin, tomatoes, turnips, turtle.

The term meats in this list could be divided into a dozen or more articles little known to the public, and the word fish stands for nearly as large a variety of canned food.

Much has recently been said concerning the increasing costs of food due to the use of cans and packages. The New York State Food Investigating Commission, the Massachusetts Cost of Living Commission, as well as many other bodies and individuals, have held that the tendency to sell goods in this form is one of the causes of the increased cost of living. That this is true there can be no doubt, but that the use of receptacles of this kind is therefore undesirable is quite another question. The rapid extension of their use seems to indicate a growing instead of a diminishing popular favor. The arguments commonly advanced in favor of package and can goods are as follows:

1. Goods are kept in better condition, free from dust and handling.

2. Keeping qualities are enhanced.

3. Cost of handling in the retail store is reduced. It is easy, as far as handling is concerned, to sell a package or can ready for passing across the counter. Such goods can be sold to the consumer at a lower margin of gross profit than bulk goods of the same class.

4. There is less waste both in the store and in the homes, the waste formerly resulting from handling, weighing, packing, and so on, being largely eliminated.

5. The package or can is more attractive than goods of

like character in bulk. While the number of grams of food elements in a package are not changed a bit by its appearance, it is well known that the consumer's appetite is decidedly affected by it. The attractive food container as well as the table linen and silver are elements in consumption that people now demand.

6. The use of canned goods gives even to the family of moderate income an opportunity to use a wide variety of foods from all parts of the world.

7. The contents of a can or package are usually of such quantity as may be served and consumed in a short time. The consumers do not grow tired of the food as they did when they ate oatmeal porridge made from oatmeal out of the barrel every morning all year long. The use of canned and packaged goods permits of frequent changes in diet.

8. All parts of the foods that are packaged or canned are edible, and many such foods are ready-cooked. There is no waste. The unedible parts are removed at the factories and made up into by-products, while under the old methods of home food production such materials were very largely thrown away, especially in the cities. Much of the packing, as well as other operations of food preparation, are done by machinery with great saving of labor.

That food in cans and packages costs more than in bulk as formerly sold there can be no doubt. If consumers desire their foods in these new forms, they must pay the added expense of preparing them. It is also likely that in the case of some of these goods the margins of profit are much higher than with similar bulk goods. This may be accounted for partly by the novelty of the product, its immediate success, and the lack of the keen competition that is likely to develop in the course of time. That the demand for food in small lots put up in attractive form is here to stay, seems certain.

Many illustrations could be given of changes in the character of demand for clothing. For example, men's $10 suits of clothes have given way to $15 to $25 suits; women's corsets for 25 cents up to 75 cents have been displaced by those selling from $1 up to $3 and more. Boots for men gave way to congress shoes, and congress shoes to lace and button shoes. Copper-tipped shoes for children are now unknown. Fifteen years ago nearly all men shone their own shoes. Now shoe-blacking is hardly ever sold to people living in the richer homes. Shoes are polished by boot-blacks and in so-called "shoe-shining parlors." The shawl for men and for women is gone, as is the paper collar, dickie, and cuffs for men. Heavy underwear has been discarded for much lighter weights but of much finer grades. Clothing for women and children, nearly all made in the homes a score of years ago, is now largely, probably half of it, made outside of the homes, in factories. Entire families of children were once dressed in clothing made from fabric of the same pattern sold from the same bolt, so that, having seen one of the children, one could identify all of the rest of the members of a family by their uniform colors. Now, all of that is changed. Where means permit, each child in the family must have a distinctive dress suited to its age and individuality. The carpet bag and rubberized satchel have given way to the suit case and traveling bag. Gone also is the cotton umbrella with its whalebone ribs. In the drug line, proprietary articles have increased from 7,500 in the early 90's to over 30,000 in 1913. Hardware, furniture, and many other lines have experienced similar tendencies.

The causes for such changes in this country are not hard to discern. In addition to the change in habits from one generation to another, there is the steady effect of the inflowing immigration, also the emigration. Each addition or subtraction of people from a community is likely to

strengthen or weaken some tendency to form certain habits of consumption. But more effective than these general movements is the education that the American public is getting through its schools, theatres, lectures, moving-picture shows, and so on. Through these everybody finds out what everybody else's standard of living is. No class can keep its methods of satisfying its wants long to itself. The poor learn from the rich, the employee from the employer, and the country from the city. Chicago learns what New York is doing — what its people have to wear and how they live; and Kankakee learns from Chicago. Information is diffused quickly and widely. Emulative imitation takes care of the rest.

The shortening of hours of labor and the consequent increase in leisure time that nearly all classes have enjoyed has helped indirectly to bring about the great changes in demand noted above. During the newly acquired leisure time, the laborer has had the opportunity to learn and to think about things concerning which he could have had no possible interest while his time was entirely taken up by his work.

The rise into economic independence of large classes of people is another factor helping to produce the changes. Nowhere are the effects on demand of such changes in economic conditions more obvious than among those classes of people who have an income of $1,000 a year and over. In families having less than this income, the wife must often work as well as the husband, but when the husband's salary or income passes this point, one of the first things that occurs is the withdrawal of the wife from some, if not all, productive labor. The standard for the wife thereafter becomes one of leisure, and the demand made for goods reflects how this standard moves. Not only is outside work by the wife given up, but also the labors of the home are lightened pro-

gressively. Package goods and ready-cooked foods, or foods that may be prepared in a very few minutes with the least possible amount of labor, are especially esteemed. Orders for goods are for small quantities only, and left-overs are disliked. The servant problem is solved by throwing most of the work of the home on commercial enterprise and eliminating maids and servants entirely.

Every magazine, newspaper, and recent novel is a lesson in demand. Advertising, news, stories, and illustrations convey impressions concerning the methods by which people satisfy their material desires and cause the wide diffusion of current standards. Who can estimate the influence that the food, dress, and ways of living of heroes and heroines in modern novels has had on the standards of the readers? The influence of the theatre on women's dress is well understood, but no one has yet given Christy, Hutt, Fisher, Gibson, Flagg, Phillips and other popular artists and illustrators the credit they deserve for interpreting the high tide of fashion in clothing and dress accessories, and for helping to popularize style tendencies through their work as illustrators of fiction. What is proper and desirable is thus built up in consumers' minds quite unconsciously. Mental products of these kinds are the ones consumers fancy to be their own — the result of their own tastes and intuitions.

In conclusion, the consumers are the rulers of the retail market. What consumers want, actually or potentially, constitute the things that the retailer must supply. If he cannot, he must make way for the one who can. It is most difficult to characterize these consumers in general terms. Among the multitude of consumers there are marked individual differences. No general classification would be adequate. They are of all classes and conditions. They are made up of the rich and poor, old and young, ignorant

and intelligent, active and indolent, careful and indifferent, honest and dishonest, and the sick and the well. Most of them are struggling for a living, all have their difficulties to contend with, and few can ever have all of their demands for goods entirely satisfied. Now attending to one want, now another, they seek the maximum of satisfaction possible to them under the circumstances. Subject to a multitude of whims, unsystematic in their buyings, forgetful, ease-loving — such in general is the character of the customer of the retailer. It is for these that the retail store, in fact all business, exists. The merchant and his employees, who have learned that the store is for the customer and not the customer for the store, have gone far toward solving the problem of how a retail institution should be conducted.

Bibliography

Langworthy, C. F. Food Customs and Diet in American Homes. Circular 110, Office of Experiment Stations, U. S. Department of Agriculture.

Homes, Geo. K. Consumers' Fancies. Year Book of U. S. Department of Agriculture, 1904.

Fawcett, W. Consumer Demand. *Printers' Ink,* Nov. 7, 1912.

Warren, W. P. Getting People to Pay More. *Printers' Ink,* Dec. 28, 1911.

Beardot, E. The Quality Appeal. *Printers' Ink,* Feb. 22, 1912.

Johnson, R. W. Keeping Up with the Changing Market. *Printers' Ink,* Sept. 12, 1912.

Fawcett, W. Consumer Demand. *Printers' Ink,* Nov. 7, 1912.
Ink, Oct. 17, 1912.

Spencer, C. D. Putting Yourself in the Consumer's Place. *Printers' Ink,* June 15, 1911.

Harris, W. J. How the Shifting of Population Is Affecting Possible Markets. *Printers' Ink,* Aug. 28, 1913.

Rogers, E. S. What Sort of a Person Is the Consumer? *Printers' Ink,* Sept. 26, 1912.

Woman as a Buyer. *Printers' Ink,* Oct. 20, 1910.

Parlin, C. C. "The Merchandising of Textiles." Curtis Publishing Company.

Ward, L. F. The Psychic Factors of Civilization, Ch. XXVI, "Female Intuition."

Hall, G. S. "Adolescence," Vol. II, pages 561–569. (Splendid on differences between men and women.)

Frederick, Mrs. C. "Woman — the Greatest Buyer." Address before Associated Advertising Clubs of the World, Toronto, June 22, 1914. *Associated Advertising,* Aug., 1914.

CHAPTER IV

PRESENT STATUS OF RETAILING

To get an accurate idea of the proportions of any business, one naturally turns to the census statistics of a country. But in the study of the distribution of goods, and of retailing in particular, one meets with a strange lack of any information in such documents. The only helpful material contained in the United States Census reports having any reference to trade, are the figures showing the occupations of the working population of the country. Such figures were first published for the census of 1850, and have been continued in connection with each decennial census down to the present, but the working of the Census Bureau machinery is so slow that years intervene between the census itself and the publication of its results. For example, the report on occupations from the census of 1910 was not published until the autumn of 1914.

The following figures are presented from the census of 1910. The reader should observe caution in reading the table. For example, the figures showing the number of merchants and dealers do not represent the number of establishments. All owners and partners and managers of stores were counted. In cases where a store was owned by several partners, each partner was counted. In cases where one person owned several stores directly managed by himself, the owner or manager was counted, and not the stores. The total does not represent the number of retail stores in this country, and there is no way of telling whether the num-

ber of establishments is greater or smaller than the number of merchants and dealers.

Number of Persons Engaged in the Retail Business [1] 1910

Retail merchants and dealers, total		1,195,029
Agricultural implements	8,518	
Automobiles	4,597	
Books	3,118	
Boots and shoes	19,346	
Butchers and meat dealers	124,048	
Candy and confectionery	29,538	
Cigars and tobacco	17,728	
Clothing and men's furnishings	35,273	
Coal and wood	24,466	
Department stores	8,970	
Drugs and medicines	67,575	
Dry-goods, fancy goods, notions	65,283	
Five and ten cent and variety	4,331	
Furniture	22,209	
General stores	88,059	
Groceries	195,432	
Hardware, stoves, cutlery	39,663	
Harness and saddlery	7,541	
Hucksters and peddlers	80,415	
Jewelry	29,962	
Liquors and wines	17,736	
Lumber	26,485	
Music and musical instruments	5,222	
Newsdealers	7,075	
Oil, paint, wall paper	6,818	
Opticians	6,284	
Produce and provisions	29,639	
Rubber goods	493	
Cashiers in stores		28,500
Clerks in stores		387,183
Bundle and cash boys and girls		10,866
Decorators, drapers, window dressers		5,341
Delivery men		205,589
Demonstrators		4,380
Elevator tenders		3,075

1 Selected Groups from Census of 1910. For a complete list of figures for all classes of retail businesses as listed by the Census, see U. S. Census, 1910, Vol. IV, pp. 420–423.

Store laborers	68,093
Meat cutters	15,405
Salesmen and saleswomen	875,180
Scrubbers and sweepers	276

Another defect in the United States Census figures for the different decades is the lack of uniformity in classification of the occupations having to do with trade. This makes all comparisons of one decade with another decade difficult, and doubtful in result. For example, wholesale merchants were not separated from retail merchants until 1890. Up to 1890, retail salespeople were counted as clerks and copyists. No traveling salesmen were enumerated as a class until 1870. No attempt was made to classify a large class of dealers at all. In 1900 over 364,000 merchants out of the total of 790,000 are simply lumped together as "not specified."

Nearly every state in the union takes a periodical census, but none of these, with the single exception of Massachusetts, has taken any particular account of the distributing classes. In 1904 a law was passed in Massachusetts requiring that a census be taken of trade at the same time as the regular ten-year census taken in years ending in 5 is taken. In consequence a study was made of the distributing business in Massachusetts in 1905, the first of its kind in this country. The volume containing the report of this census was issued in 1908.

The Massachusetts census of trade is so significant that it merits something more than mere mention in this connection. Its results cover the following subjects: when the stores were established; number of establishments, classified into retail, wholesale, jobbing, commission, exporting, importing, and exporting and importing; the number of partners and stockholders; the capital invested; value of goods sold; the number of wage earners; the wages paid per week;

the number of salary earners; and the salary paid per week.

As a study of wage and salary conditions, this census is excellent, but retail stores are not carefully enough distinguished from the other kinds of distributing institutions to permit one to form any conclusion as to the proportion of distributors, as for example, grocers, dry-goods men, or hardware store keepers, to population. Nothing definite can be learned as to the service rendered to the people of the state in kinds of goods handled and expenses of handling. A good start was made in getting this census, but much more still remains to be done. Some of the more suggestive results shown in the Massachusetts report are as follows:

Over half of the extant concerns had come into existence within the ten-year period preceding the census. Ten firms out of a total of 29,045 had been founded before 1770. There were 12,441 stores which sold food products. The average investment in each of these was $2,489, and the average sales $14,569. There was one food store for every 241 people in the state.[2]

Another important contribution to the subject of retailing was made by the state of Massachusetts in its Report of the Bureau of Statistics of Labor for 1899, published in March, 1900. Seventy pages in this report were devoted to a study of "Changes in Conducting Retail Trade in Boston since 1874." The investigation upon which this report was based was undertaken to determine the effect of the increase in number of department stores on the retail trade. Several states were considering legislating against the department stores at the time, and, as it happened, there was a bill introduced before the Massachusetts legislature during the session of 1899–1900. Nothing came of this bill, however,

[2] A few of the most significant figures in the Massachusetts Trade Census will be found in Appendix II of this volume.

and the Bureau reported as the results of its investigation, that there was no reason to believe that department stores were crowding the small stores out of existence.[3]

Another source of statistical information concerning the number of retailers of this country and their financial ability, is found in the reference books of R. G. Dun & Company and in the Bradstreet lists of various classes of dealers. These lists all probably contain some inaccuracies. Neither of the two concerns are able to get all of the names of all concerns in business. But the lists are likely to include the better and more stable classes of retailers — those who have been in business for some time.[4]

One of the first, if not the first, of the studies of retail distribution was made by a committee of the American Economic Association and reported at the regular annual meeting in 1887. This report contained a number of significant suggestions, and it seems too bad that this great association of American scholars of economics did not see fit to continue their work so well begun in this line. The text of Secretary R. T. Ely's abstract of the report is presented herewith:

"Report of Committee on Trade[5] on 'Condition and Organization of Retail Trade' to American Economic Association," May 24, 1887.

"This preliminary report, on the condition and organization of retail trade, was a compilation of a large number of returns received in answer to circulars of inquiry sent to retailers, chiefly in Kansas, Iowa, Minnesota, covering eleven hundred and eighty-five retailers. The report shows:

3 A comparison of the number of departments selling specific lines of goods in department stores, with the number of specialty stores in Boston, and a comparison of the total population of Boston with the number of retail stores in each of several specified lines, as enumerated by the Bureau of Statistics of Labor in 1899, will be found in Appendix III hereof.

4 A list of the number of wholesalers and retailers in various lines of merchandise, as compiled from R. G. Dun & Company's records, is given in Appendix IV.

5 Professor James H. Canfield, Chairman; Professor Jesse Macy, Dr. Albert Shaw, and Professor W. W. Tolwell, Committee.

"That retailers are increasing (proportionately) four times as fast as the population.

"That the average retailer knows very little of the general condition of his own branch of business.

"That there is very little, if any, efficient organization among retailers.

"That intelligent retailers are coming to understand and deplore this condition of affairs.

"That competition tends constantly and strongly to become mere unintelligent commercial cut-throatism.

"That in food supplies, competition tends constantly and strongly to adulteration and general inferiority; while in dry-goods and clothing the result is better quality and better workmanship. Boots and shoes and other branches are about equally divided in opinion as to the result of competition.

"That compared with the capital invested, the volume of business is very large and the wages of superintendence very small.

"That in the localities reporting, during five years 15 per cent of the retailers have failed, about 17 per cent have changed localities by removal, and 12 per cent have withdrawn from business, leaving but about 56 per cent that can be called stable.

"That the more experienced dealers are settling down to a cash basis.

"That the undue extension of credits and the consequent abuse of the credit system by both wholesalers in relation to retailers, and retailers in relation to their customers, is a large factor in the present disordered condition of the retail world.

"There seems to be a strong tendency to avoid credits in buying and selling. Accounts settled at the close of each month are generally called *cash* accounts. A suggestion is

made that all laws for the collection of debts be abolished. This would be better worded as 'laws for the enforcement of credits.' In proportion to the amount of business done and credit extended, there are fewer collection suits than formerly. The great mercantile agencies make a specialty of protecting credits. It is thought if the wholesale credit system were considered as resting entirely on honor, the results would be in every way beneficial to both traders and the purchasing world. The committee has received several suggestions looking to this general result. The thought is worthy of careful consideration. The assertion is made that the largest and most successful business firms in this country already proceed practically on this basis.

"After the full report of this committee was read, President Walker said that the field was so vast that no generalizations from such limited data as this committee had obtained were reliable.

"Dr. Bemis spoke briefly on retail trade and co-operation, and Rev. J. G. Brooks and Mr. Geo. A. Denison and Professor Ely continued the discussion."

Subsequent accounts and statistics have shown certain of the deductions in this report badly founded, as for example, that retailers are increasing four times as fast as the population, and that the more experienced dealers are settling down to a cash basis. On the whole, however, the tendencies found by this committee seem to be amply supported at many places by facts drawn from other sources. It is to be hoped that the American Economic Association or some other organization may soon take up again such studies as these, and work out collectively what is so difficult and so time-consuming for single individuals to accomplish.

CHAPTER V

THE EXPENSES OF RETAILING

One of the best ways to get a clear understanding of the retail business is to analyze its expenses. Until such an analysis has been made, comparisons of the work of one store with that of another are mostly meaningless. But the development of better retailing beyond a certain point can come only through intimate, detailed comparisons of the elements determined from such an analysis. The factors favorable to efficiency may thus be isolated in the more successful stores and applied in the administration of the less successful. The leaks, wastes, and abnormal elements may likewise be determined and eliminated.

In text-books of general economics it is commonly stated that there are three factors of production, viz., land, labor, and capital. A retail business, like all other economic enterprises, possesses these three factors. The land factor comprises the location utilized by the store, and the labor includes all of the services given to the business by all the people employed in it, from manager down to the elevator boy or cash girl. The capital element includes all that for which money has been laid out — such as merchandise, fixtures, and equipment of all kinds.

This classification has its value for purposes of general economic discussion, but in a treatise on a special field of economics, such as the distribution of goods at retail, it is not detailed enough to be as serviceable as it should be. For a better enumeration of the factors of a retail business we

must go to the accountants who have made a special study of cost finding in the retail business.

The most notable contribution to retail cost accounting is the "Harvard System of Accounts for Shoe Retailers." In 1911 the Bureau of Research in the Graduate School of Business Administration of Harvard University began investigating the distribution of shoes with a view to collecting facts suitable for educational purposes. A certain amount of field work in gathering data during the summer convinced the managers that such investigations would be useless, since the data collected from different stores did not represent the same things. In other words, there was no uniform classification of elements of expense in the business. Accurate comparisons could not be made. As a preliminary step to further work it was determined to prepare a uniform accounting system. "A joint committee composed of accountants of national reputation and of shoe men most representative in Boston and vicinity was secured. As a result of their labors and counsel, and that of the Bureau, the Harvard System of Accounts for Shoe Retailers was given to the trade early in 1912."

A large number of shoe retailers the country over have adopted this system, and the number is rapidly increasing. A bulletin giving a general statement of the results found during the first year of its operation was published by the Bureau in May, 1913. Reference to this publication will be made in several places in this work. The expense classification in the Harvard Accounting System, while specifically prepared for the shoe business, seems to be generally adaptable with minor changes to any retail store, especially of the one-line or specialty type. Department store accounts must be carried somewhat differently. Other elements need to be considered when a store handles many lines of goods.

A great deal has been written on retail accounting dur-

ing the last three or four years. The Burroughs Adding Machine Company, in connection with their advertising, conducted an investigation on how retailers figure their profits, and found a considerable variation in methods. A large number of returns obtained indicated that many retailers were in error. The account of this investigation accompanied by suggestions for better bookkeeping methods was published widely in the trade papers of the country.

Several of the trade papers have themselves conducted service bureaus where proper accounting methods have been promulgated.

The National Association of Credit Men has interested itself in proper retail accounting and has published a set of rules showing what items of expense should be considered and how.[1] For four or more years the National Implement and Vehicle Association has conducted an extensive campaign for accurate cost finding in retail businesses handling agricultural implements and vehicles. Frank E. Goodwin, editor of a St. Louis trade paper known as *Farm Machinery*, claims to have been one of the first to begin a systematic study of the costs of doing business in a retail store.[2] The fact that his studies were not begun until 1908 shows how recent the whole movement for more careful analysis of distributive business is.

A remarkable work for promoting better methods of retail accounting has been performed by Thomas A. Fernley, of Philadelphia. As secretary of various national trade organizations, Mr. Fernley compiled a large number of facts regarding the retail trade and published monographs on the subject,[3] that have been given a very wide distribution. So far as the writer has learned, these were the

1 See Appendix V of this volume.

2 *American Paint and Oil Dealer*, September, 1913, p. 33.

3 A collection of monographs, including "Cost of Doing Business" and the "Right Way to Figure Profits," was published in 1912 under the title "Price Maintenance," by Thomas A. Fernley, Philadelphia.

first publications upon the subject of scientific retail cost accounting. In conversation with Mr. Fernley the writer was told that the studies preceding these publications began in the later 90's and were carried on by both Thomas A. Fernley and his father, T. James Fernley, secretary-treasurer of the National Hardware Association of the United States.

William H. Ingersoll, marketing manager for Robert H. Ingersoll & Brother, has worked out a system of accounting for retail jewelers that has been found acceptable, and has been widely adopted.

Hart, Schaffner & Marx, the Chicago clothing manufacturers, have devised a system for retail clothing stores which is described in a pamphlet entitled, "What Do You Know About Your Business?"

In 1915, the General Extension Division of the University of Minnesota, through a committee composed of retail merchants, of the editor of one of the trade papers, and of a representative of the General Extension Division, appointed at the first short course for merchants held during February, 1914, issued an accounting system for general merchants.

Several private concerns as well as individual accountants specializing in retail systems have broken into the field of retail cost accounts, with the result that, while the movement is comparatively recent, it is already developing rapidly.

In running a store it must be borne in mind that a retailer must make two distinct kinds of direct outlays; first, his costs for goods, and, second, his costs for conducting the business. If one may compare a retailer's business with a manufacturing concern, the outlay for merchandise is much the same as the manufacturer's outlays for raw ma-

terial, and the costs of conducting the retail business are similar to costs of manufacturing — labor, rent, general expenses, etc. What the retailer pays for the goods is not their total cost when handed over the counter to the consumer, any more than the cost of raw material is the total cost of the finished product that the manufacturer offers for sale. Nothing but looseness of speech and of thought can account for the common use of the word profit as if it were the full difference between what the retailer pays for the goods when he buys them and what he receives for them when he sells them. The true costs of the goods include the purchase price plus all expenses of transportation, drayage, and so forth, necessary to bring the goods to the store. Then in addition to this first cost of the goods laid down, there are the costs of selling them. It is the latter, the costs of selling the goods in a retail store, that we are interested in outlining in this chapter. It should be noted in passing that all freight, express, parcels post, and cartage on incoming goods are to be added to and considered part of the purchase price of the goods. Only after the goods actually reach the store can the selling expense in them be said to commence.

Classification of Retail Store Expenses

I. Buying Expenses:

1. Salaries and wages of buyers in proportion to time spent in buying. (All time consumed in examining stock, making stock records, ordering goods, inspecting salesmen's samples, and all time used in buying trips should be included.)
2. Traveling expenses.
3. Miscellaneous expenses.

II. Selling Expenses:

1. Salaries and wages of sales force. (All time given to selling by buyers and manager should be included under this classification.)
2. Premiums, commissions, bonuses, spiffs, PM's, and prizes paid for sales service in addition to salaries.
3. Advertising:
   (1) Newspaper and periodical
   (2) Circulars and letters
   (3) Bill boards, electric signs, etc.
   (4) Local programs
   (5) Window displays
   (6) Gifts, premiums, and trading stamps
4. Miscellaneous:
   (1) Wrapping paper, twine, etc.
   (2) Free alterations and repairs
   (3) Expenses and losses on returns

III. Delivery Expenses:

1. Wages of delivery force for time spent in delivering goods to customers.
2. Stable and garage expenses.
3. Express, mail, and freight shipments.
4. Miscellaneous.

IV. Management Expenses:

1. The portion of the salaries of the managers represented by the time consumed in hiring and training employees, supervising the work of the store, and other managerial work.

V. Office Expenses:

1. Salaries of bookkeepers and stenographers for time spent in office work.

2. Salaries of cashiers, inspectors, and office messengers.
3. Office supplies:
   (1) Stationery, printing and postage
   (2) Account books
   (3) Miscellaneous

VI. FIXED CHARGES:
1. Rent:
   (1) Store premises
   (2) Storage or warehouse
2. Heat, light and power.
3. Insurance:
   (1) Fire
   (2) Burglary
   (3) Fidelity
   (4) Plate glass
   (5) Employer's liability
   (6) Accident elevator
   (7) Sprinkler system water damage
   (8) Warehouse
   (9) Boiler
   (10) Merchandise en route
   (11) Life insurance payable to firm
4. Taxes on stock and store equipment.

VII. UPKEEP AND DEPRECIATION EXPENSES:
1. Repairs and renewals of equipment.
2. Depreciation of equipment.
3. Depreciation of merchandise stock.

VIII. MISCELLANEOUS EXPENSES:
1. Telephone and telegraph expenses.
2. Water and ice.
3. Care of store, janitor's services, cleaning, etc.

4. Expenses of collecting slow accounts.
5. Losses from bad debts.

IX. Interest on Net Worth of Business at Current Rate.

After classifying the expenses of a store according to the foregoing or any other method it is necessary to reduce the results to percentages before they may be compared with similar results recorded from other stores, or even with results from the same store for years past. But in order that the percentages may be compared they must be computed upon the same bases. At this point there is much disagreement among retail store accountants. Some claim that the costs of the goods should be used as the base, while others insist that the sales cost should be considered as the base. Trade papers have teemed with articles on both sides. Frank E. Goodwin, already referred to, has been a leader in the discussion for using the costs of the goods as the base,[4] while the National Association of Credit Men, Burroughs Adding Machine Company, Butler Brothers, the National Implement and Vehicle Associations, the Harvard System of Accounts, as well as many of the trade papers have urged sales cost as the proper base for figuring retail expenses and profits. It is obvious that either may be used with accuracy if adhered to consistently. The trouble that has arisen has been due to the fact that dealers have very generally computed some of their percentages on their sales and others on costs. This confusion constitutes the chief error noted in actual practice.

There seems to be some advantage, however, in computing expense and profit percentages on sales rather than on costs, and for this reason all percentages in this book are

[4] "A Cost Accounting Fallacy Exposed," first published as an article in the *American Paint and Oil Dealer*, June, 1912.

based on sales. In a little pamphlet published by the Burroughs Adding Machine Company, written by Thomas A. Fernley, "twelve reasons why the percentage of profit should be figured on the selling price and not on the cost" are given:

First. Because the remuneration of salesmen is figured on a certain percentage of the selling price.

Second. Because the percentage of expense of conducting business is based on the selling price. If you talk per cent of profit on cost and per cent of expense on the selling price, where are you?

Third. Because the mercantile and other taxes are invariably based on a percentage of the gross sales.

Fourth. Because the sales totals are always given in books of record, cost totals are seldom, if ever, shown.

Fifth. Because a profit must be provided for two items of capital — one the capital invested in merchandise — the other the capital necessary for operating expenses and other expenditures not properly chargeable to merchandise account. This is only possible by figuring profit on the selling price.

Sixth. Because it indicates correctly the amount of gross or net profit when amount of sales is stated. The percentage of profits on sales is indicative of character of result of year's business — percentage of profit on cost is not.

Seventh. Because allowances in percentage to customers are always from selling price.

Eighth. Because no profit is made until sale is actually effected.

Ninth. Because nine stores in ten which do not figure on the selling price get mixed somewhere in their figures, and do not know whether they are going forward or backward.

Tenth. Because the big stores figure on the selling price.

Eleventh. Because it puts the retailer where a customer

will not be so likely to call him a robber if he learns the percentage of profit. Twenty per cent of the selling price is 25 per cent on the cost, but the 20 per cent does not seem as large an amount.

Twelfth. Because if you figure on the selling price you can go to the cash drawer, and say "10 per cent of that money is my profit" instead of having to say that "10 per cent of the cost of the goods which I sold for that money is my profit."

The total expenses of doing a retail business vary greatly. The causes for these variations may be inferred to be due to the kind of business, the location, the volume of business done, the class of business whether high or low grade, and the efficiency with which it is conducted. Expenses seem to vary according to the size of the town — the larger the town the higher the expense. There seems to be a little variation between the different parts of the country. Pacific Coast and Mountain State stores have expenses running from 1 to 3 per cent higher than the Middle West, while costs seem to be somewhat less in the South than in the North for similar classes of business. The averages reported by the trade papers for the various parts of the country are remarkably similar, however, for the same kinds of businesses.

A recent article contains the following statement:

"Location counts. One per cent may be added for the Pacific Coast and Mountain States (freight, an important but variable item, is not considered) and one per cent may be deducted for the Atlantic Coast. Rural community retailers may safely deduct three per cent from the averages, and concerns in cities of over 400,000 add two per cent." [5]

In the investigations of the costs of doing business in dry-goods and ready-to-wear stores, made by C. C. Parlin for

[5] *System,* December, 1913, p. 569.

the Curtis Publishing Company, the following results were obtained:

COSTS OF DOING RETAIL BUSINESS [6]

Dry-Goods and Women's Ready-to-Wear

(Including Corporation Salaries, Buying Expenses, and Freight)

Cities	In the East		In the Middle West and South		In the Pacific and Mountain States *	
	Range	Ave.	Range	Ave.	Range	Ave.
600,000 up	24–31%	26½%	.....	..	.....	..
200,000 to 600,000..	22–27	24	23–28%	25%	28–34%	31%
10,000 to 200,000...	20–25	22	20–26	23	25–32	28½
2,500 to 10,000.....	17–23	20	18–24	21	20–27	26½
Rural stores	10–20	17	11–20	18	15–25	23

* Freight to Pacific Coast amounts to about 3 per cent and to the Mountain States 4 per cent of the sales. Reductions to this amount should be made from the last column.

The Harvard investigation on the retailing of shoes for its first year ending in the spring of 1913 and embracing observations of more than 130 shoe stores, showed the following cost of selling:

COST OF SELLING IN RETAIL SHOE STORES [7]

Principal Items of Expense	Range (Total Expense 18–35%)	Modal Group (Total Expense Low Grade 23% High Grade 27%)	Most Efficient Group (Total Expense Low Grade 20% High Grade 25%)
Buying	0.8– 1.8%	1.1%	1.0%
Sales force	5.0–10.3	8.0	7.0
Advertising	0.0– 8.8	2.0	1.5
Deliveries	0.0– 1.4	0.6	0.4
Rent	1.8–14.6	5.0	3.0
Interest	1.0– 7.9	2.5	2.0

It is to be noted, however, that a large number of the figures upon which these percentages were based came from

6 "Selling Forces," pp. 178–179. (Curtis Publishing Co.)

7 Bulletin of the Bureau of Business Research, Harvard University, Number 1, May, 1913.

stores in "the eight large cities — New York, Philadelphia, Baltimore, Pittsburgh, Cleveland, Detroit, Chicago and Cincinnati." This probably accounts for the wide range in total expense, and probably also for the difference between these figures and those found by the writer in eight Wisconsin shoe stores.

The writer's own investigations among stores in Wisconsin show the following results:

COSTS OF DOING RETAIL BUSINESS IN WISCONSIN

Kind of Business	No. of Stores	Range	Modal Group	No. Falling Within Mode
Grocery	17	12–22%	14½–17%	11
Dry-goods	11	16–25	11–22	6
Furniture	8	22–28	22–24	6
Shoes	8	16–27	21–23	4
Hardware	8	17–26	19–22	4
Men's clothing	7	20–30	27–30	3
Drugs	3	24–30	.....	.
Jewelry	4	25–32	28	2
Department stores	11	22–30	26–27	5
Five and ten cent stores	2	25–27	.....	.

An amount of data sufficient to make an accurate descriptive analysis of all of the details that enter into the expenses of retailing and the causes for their variation is not yet available. It is not likely that there ever will be fully satisfactory information upon these points until the Federal government can be induced to make nation-wide investigations in this line, much as the Department of Agriculture now studies and reports agricultural conditions. In the chapters which follow the writer has taken what facts are available and in coming to more or less tentative conclusions has made such use of them as seems warranted. The next step in this field, as well as in many other branches of economics, is not theorizing but the gathering of more facts, and this is a work that should be performed in the

interest of all business by the government or by some branch of the government.

Bibliography

Fernley, Thomas A. "Price Maintenance." Parts II and III.

Harvard University, Graduate School of Business Administration. Harvard System of Accounts for Shoe Retailers, 1914.

Sammons, W. "Keeping up with Rising Costs." (This interesting book first appeared as a series of articles in *System*. It contains summaries of costs of doing business in 1560 stores scattered over the country, from which conclusions are drawn showing how to meet the rising costs tendency.)

CHAPTER VI

RETAIL SALESPEOPLE AND THEIR WORK

The salespeople constitute the typical laborers of the retail store. It is mainly with them that the public comes into contact, and upon the character of the service performed by them hinges the success of the retail store. But, as has been pointed out, selling goods is not the only labor in a store. Goods must be bought, handled, unpacked, stored, re-packed and delivered. Office records and accounts must be kept, correspondence carried on, advertisements written and goods displayed in windows and store. Finally, the building must be kept in good condition as to heat, light, ventilation, and cleanliness. But all of this work is carried on in order to assist and make more efficient the selling end of the business.

The ratio of the number of salespeople who devote their entire attention to selling, to other employees in a store depends upon its size. In a small store, there is but little division of labor. Where only one helper is hired, he may serve alternately as salesman, delivery man, janitor, and possibly as bookkeeper. Clean division of labor, under which each class of store work is carried on by a separate group of laborers, may be found only in the largest stores; but even here, buyers and stock room help, as well as several other classes, are frequently employed for part of their time in selling goods, especially during rush times. Hence only an approximation of the share of store labor used in selling can be given. Statistics showing the actual proportions of

both sexes employed in the different departments of store work are not available. But in the United States report, "Wage-Earning Women in Stores and Factories," Vol. V, "Woman and Child Wage-Earners in the United States," page 41, the number of women employees in 26 department stores of New York, Chicago, and Philadelphia, employing a total of 36,000 women, were classified as follows:

	Percentage of Whole
Saleswomen	46.2%
Cash girls, messengers, inspectors, bundle wrappers, and packers	13.2
Office employees	17.6
Buyers and assistant buyers	1.2
Other employees	21.8
	100

From the above it appears that of all the labor that women are employed to do in large stores, selling constitutes a little less than one-half. As indicated, no figures are available on the ratio of men to women in such stores, nor to show what proportion of the total number of men employed in stores are engaged in selling. In a large retail store in Boston 38 per cent of the selling force are men.[1] In other words, if this store is typical of other big stores, there are almost twice as many saleswomen as salesmen employed. In the country as a whole the proportions are reversed. The United States census for 1900 showed 461,-909 salesmen and 149,230 saleswomen. The Massachusetts census for 1905 showed 43,365 males and 15,430 females in the total retail selling force of the state. In both the country as a whole and in the State of Massachusetts,

1 Massachusetts Report of the Commission on Minimum Wage Boards, p. 96.

salesmen were about three times as numerous as saleswomen. Only in stores of the department store class in the larger cities does the number of saleswomen exceed the number of salesmen.

The entrance of women into the field of retail salesmanship is one of the noteworthy developments of the retail business since the middle of the nineteenth century. They were first employed on a large scale in some of the largest dry-goods stores of New York, and soon after in the dry-goods and department stores of practically every other city.

In a work published in New York in 1856 it was stated that the employment of ladies as clerks in stores, especially in dry-goods stores, was becoming very general in America.[2] But with the development of the department stores beginning in the 70's, and the notion and variety goods stores, best typified today in the 5 and 10 cent stores, the employment of women as salespeople seems to have received its main advancement.

The work of the salespeople is to represent the store in the sale of its goods. The existence of a store depends upon two things; on the one hand, the possibility of serving customers, and, on the other hand, the possibility of getting a remuneration or profit for performing that service. The work of the salespeople must, therefore, be such as to satisfy customers and bring profits to their employers at the same time.

The salesmen's service to the customer consists in showing the goods the store has gathered together for sale, explaining and demonstrating the qualities and uses of these goods, and helping to make suitable selections or secure proper fittings. For this service the salesman presumably has had, or should have had, special training, so that the assistance given to the customer may have an expert or

2 Hunt, F., "Worth and Wealth," p. 499.

quasi-professional nature. After prices reach stable levels, the natural development of competition between dealers leads towards a better grade of selling service to customers. Since, according to the view of many merchandisers, the general levels of retail prices and necessary profits within given classes of retail stores have been fairly well established, we may expect to see a more rapid and more general improvement in sales service in the future than obtained in the past.

But the salesman in a retail store cannot confine his entire attention to the interests of the customer. Such singleness of purpose might occasionally result in directing a prospective customer for a particular article to a competitor's store. Such cases are not unknown. It would be eminently desirable if such practices could be increased. Such cooperation could be carried out in a town in which each store agreed to handle certain lines, to confine itself to these only, and to direct customers for other lines to the other stores. The usual interests of business, however, require that the customer must be supplied, if possible, from the store's stock. It is presumed that the buyer for the store has exercised good judgment in selecting suitable stocks of goods, and that the people who enter the store may want to purchase something from the lines represented by those stocks. It is the business of the retail salespeople to make the connections between the store's goods and the customers' wants, if it is at all possible to do so.

In the selection and purchase of goods most customers are governed by a variety of considerations — many of which are purely matters of opinion having no reasonable basis. Likes and dislikes cannot always be explained in any logical way, and many of them are subject to frequent and radical changes. People want what they think they want, and what they think they want depends largely

upon their knowledge of goods and their habits of using them. To influence the customer in favor of his goods, the salesman must, therefore, convey as many ideas as he can concerning those goods — their qualities, uses, the satisfaction that may be derived from their use, and so on.

The average customer has a great number of desires, only some of which he can satisfy with the money at his disposal. These desires compete for satisfaction in his own mind. For purposes of clearness we may consider them in two categories — desires for entirely different classes of goods, and desires for goods of the same kind but of different qualities. All of these desires are of unequal intensity. Among goods of different kinds, desires will tend to be satisfied in order of intensity. For example, if a workingman feels that he needs a new hat, a pair of shoes, and a pair of gloves, but does not feel that he can afford to buy all three at the same time, he will decide to take that which he feels he needs the most at the present time. At a later time he will take what he then needs most, and so on. He may purchase the shoes first, the gloves a week later, and the hat a week after that. Among goods of the same kind, the customer selects that which promises the greatest amount of satisfaction — such as wear, comfort, and appearance — for his money.

A salesman handling gloves might in many cases show to the man who had decided to buy shoes that a pair of gloves would be more desirable. He might point out that the customer's shoes could be re-soled and that they would then wear for a long time to come, and that the on-coming cold weather would make it very disagreeable to get along without gloves, and, finally, that the cost of repairing the shoes and of a new pair of gloves might not be more than for a new pair of shoes. By following the salesman's suggestion the customer would thus have not only his feet

cared for serviceably, but also his hands; whereas, otherwise he would have to stand the discomforts of going bare-handed for another week. Supplementing these ideas, the salesman would show the customer suitable gloves, point out their desirable qualities — durability, comfort, warmth and good appearance — and thus help to build up the customer's thoughts, and, consequently, his desires for gloves.

A customer who has decided upon what kind of goods he wants, is still confronted by the problem of getting the most for his money. There are many kinds of shoes of many different qualities. The work of the salesman is to find the shoe from his stock that will serve the customer best, and then explain it, fit it, and get the customer to appreciate it more highly than any competing shoe.

What the salesman does in either case may be summarized as follows: He presents to the customer's mind by all possible methods, ideas about his goods that will build up a favorable impression, so that when it comes to the time of deciding what to buy, the customer's desire for the given article that the salesman is trying to sell is clearly much stronger than any other desire he may have for other goods of either different or the same kind. Using the economist's term, "marginal utility," which simply means the intensity of demand felt for any goods, we may say that the marginal utility for almost any article is an extremely variable thing with most people, not only as between different things but also for the same thing considered at different times and under different circumstances for any one person. What the salesman does for his employer is to raise the marginal utility of the article he is trying to sell to such a point that in the customer's mind it overtops the marginal utility of all other goods at that particular time.

The question may be raised at this point as to whether this is in the interests of the consumer and of society at

large. In answer it may be pointed out that desires had to be aroused and intensified in order to introduce into general use practically every article of modern convenience and comfort. It was salesmanship that put the sewing machine, range, gas stove, electrical appliance, musical instrument, washing machine, and vacuum cleaner into the home. Salesmanship has introduced practically all great improvements and devices into every line of business and industrial life. Without salesmen our present material development would be inconceivable. Salesmen are the present time teachers of the people in the arts of progress, and, as such, rank with the schools and the press.

The social importance of good salesmanship can be pointed out very well by showing the failures of salespeople of the past generation. As one goes through homes and notes the incongruous furnishings, lacking both in art and in usefulness, one cannot help but think of the wasted opportunity of salesmen to point out to purchasers how — and generally without additional expense — they might have improved their homes. Much of the wastes of American cookery in the towns and cities could be eliminated by a word of advice given by skilled grocers' salesmen now and then. It is said by shoemen that at least 75 per cent of adults have troubles with their feet — corns, bunions, ingrowing toenails, broken-down arches, and so on. Most of these troubles are directly traceable to poor shoe fitting; in other words, poor shoe salesmanship. Much of the waste, inefficiency, and even suffering due to badly furnished homes, poor clothing, badly fitted garments and shoes, wrongly selected foods, and so forth, are chargeable to a very large extent to bad retail salesmanship. One should not overlook the responsibility of the consumer for being in the plight he is often in, but the work of the retailer and his salespeople as

purchasing and distributing agents for the community might well include such education of the consumer in the use of materials as the retailer and his salesmen are best fitted to give. There is unbounded opportunity for progress along these lines.

It is not to be inferred that because of the great social services the salesmen perform, and the still greater ones that there are opportunities for, that there are no evils connected with selling. There can be no doubt that many people are led to place too high estimations of value upon certain goods that common sense would dictate should be placed in a subordinate order. But purchases made by consumers are largely dictated by custom, and the ultimate satisfaction derived from the purchase must determine its value in comparison with other possible purchases and the wisdom of the purchase. If its use results in comparatively little satisfaction, then we may say that the purchase was unwise; otherwise, not. Many a purchaser has been called a fool by his acquaintances for investing in a new contrivance which ultimately brought him great results, and many an unwise purchase has been made by consumers where no salesman's persuasion had anything to do with it whatever. It is likely that no more people have been deluded into buying things they did not need, and could not get full value from, than have been deluded into voting the wrong ticket and for the wrong men in politics, or into taking any other unwise individual or social action. Evils in other lines do not excuse evils in selling, but an understanding of the general prevalence of such things causes one to take a broader view of the matter. One of the main results to be hoped for from a thorough system of educating salespeople for their work is a clearer and keener conscience upon this point. As a further remedy the practice now followed by many stores

of exchanging goods freely, or of refunding the purchase price, if customers are not satisfied with the goods, offers almost a complete remedy.

The great evils frequently associated with salesmanship are dishonesty and misrepresentation. If goods are declared to possess qualities which they do not possess, and which the customer cannot safely pass judgment upon, a great wrong is perpetrated. Under such circumstances the customer buys thinking that he is receiving what he is really not getting at all. Much of this dishonesty appeared in the old time "puffing" of goods, horse traders' bragging, and merchants' higgling. Much of it has survived, though in decreasing proportions, down to the present day. The attempt is now under way to purge advertising of this fault; and the next step is to hold salespeople equally responsible for every statement they make.

A most insidious form of dishonesty in selling is that committed by manufacturers who adulterate or misbrand their products. Retail salesmen may be and are, in many cases, as helpless before this form of dishonesty as the customers themselves.

Nothing but close public supervision and regulation will eliminate such forms of dishonesty. Opponents of public interference in business must bear in mind that rules are necessary in all situations where people come together, whether it be a game or a public assembly. Regulation supplies the rules under which business must be conducted. Its purpose is to provide fair play to all concerned.

The factors of successful salesmanship are the salesperson's knowledge, experience, attitude towards the work, and personality.

The knowledge referred to is that which applies directly to the work of the retail store — knowledge of the qualities and uses of the goods sold and the ability to describe them

properly to prospective customers; knowledge of people, their traits and ways of thinking, their ways of using goods, their methods of arriving at an appreciation of values, their standards of living, their consumption habits and customs; knowledge of the store, its plans and policies, and of its stock, so that no time need be wasted in locating the goods wanted when serving a customer. Experience is needed to give deftness in handling and apply these forms of knowledge.

The attitude towards the work is highly important. The salesperson's constant contact with the customer and the ultimate relationship between the goods offered and the salesperson in the customer's mind, make it highly imperative that the salesperson present a mental attitude that is favorable to salesmaking. What this attitude must be is somewhat difficult to define except in most general terms. It involves a liking for the work, a liking for people and human nature of all kinds, an optimistic view of life and its problems, enthusiasm and ambition. The salesman must feel, not make-believe, that he has a great work to perform, that he is one of the luckiest of mortals to have the opportunity, and that every person who approaches his counter is his possible friend. Liking for the work and a feeling of friendliness to all people are the most essential elements of this attitude.

Personality is a great factor in all kinds of selling. It is not only the goods themselves but the manner in which they are to be sold that counts in marketing. Every detail of the salesman's personality, whether pleasing or otherwise, exerts an influence on the customers with whom the salesman comes in contact. This influence is not by any means the same on all. Each element of personality has its own peculiar effect on each customer. But in general, the salesman with a disagreeable personality loses a certain percent-

age of the sales that a salesman with pleasing personality would hold.

Personal habits, individual peculiarities, appearance, and manners all count in the make-up of pleasing personality. To many customers the use of tobacco, liquor, and chewing gum are offensive. A bad breath, harsh voice, too loud speaking, and indirectness of manner are likewise generally irritating to a large number. Since the majority of customers are women, the type of personality that pleases them rather than men, so far as a differentiation can be made, is to be preferred. Friendliness, courtesy, deference, sincerity, and tactfulness are essential attributes.

There are many trying situations constantly arising in a retail store that make it difficult for any salesperson to pursue an ideal course. Especially are the younger ones tempted to assert combativeness or antagonism to certain types of customers. There is a strong tendency in this country, as elsewhere, towards caste and class ideals. Many shoppers look upon salesgirls as a class of servants. This is frequently resented. A large number of the young women who are employed in stores have chosen this kind of work rather than domestic service, even at a lower net wage, simply because store work seemed to offer them a higher class or plane of social life. They are, therefore, socially ambitious; and when the shopper looks down upon them as a class beneath, they are likely to disregard the possibility of making sales, and think only of showing the customer a spirit of independence and an attitude of "I am as good as you." Such salespeople rebel unconsciously at the bearing of a shopper who looks at the saleswoman as a maid or servant. The more successful salespeople are able to look upon all such situations in a philosophical manner, while rendering the service that the shopper exacts in the manner desired.

The underlying bases of the factors of successful salesmanship are clearly good health and proper education, or, in other words, a good physical and mental equipment. Proper education, we are coming to understand, includes not only a training of the mind to perform mental tasks, but also the ability to control and mold the body to the uses of the mind. In a certain sense, proper education is one of the first requisites to good health, for health depends largely if not entirely upon proper attention to such matters as food, fresh air, clothing, rest and sleep, and exercise. The proper use of these does not come naturally to anyone. Experience is the source of the knowledge of right living for most people, but experience is a costly teacher. Training under the direction of skilled teachers, whether in person or through books, promises much greater returns.

Good health, a clear mind, and plenty of surplus energy when well directed are magnets of trade and sales. The influence of health on disposition and personality is well recognized, as is also its influence on memory and clear thinking. Good health, optimism, and cheerfulness tend to associate closely, and the relation of all of these to selling we have already seen. There is no calling in which the factor of good health and the external evidences of it, such as good posture, lively step, bright eye, and clear skin count for so much. One, in this field of work, who does not possess these qualities is handicapped from the start.

The salesperson should give special attention to the care of the feet, correct shoe fitting, and the avoidance of shoes that are too tight, too short, or that have too high heels. They are on their feet so much of the time that lack of attention to such details as these is likely to cause a great deal of trouble. The use of rubber heels and a moment's rest by sitting down now and then are suggested as helpful ex-

pedients. Cork mats back of the counters, or other paddings for the floor, have been provided in some retail stores to reduce the strain and fatigue on salespeople's feet. Many stores provide the services of a skilled chiropodist to care for the feet of the salespeople.

The physician, or at least a nurse, has come to be a regular employee of most of the larger stores of the country, and the chief duties of these are to prevent employees from becoming ill, to watch for signs of physical breakdown, and to provide means of prevention. Dentists' services are offered in some cases, and suggested in many other stores. The importance of health on selling has, therefore, not only been recognized, but means have been taken to insure that it shall be secured.

Proper education for selling requires two kinds of preparation: first, such general education as is now given to every youth in the public schools — general culture; and, second, special vocational training fitting the prospective salesperson for his or her chosen work. The latter should consist of special education about the goods that are to be handled, the routine practice followed in stores, and a study of people. The study of people, when properly developed, will probably consist of an elementary course in psychology, social psychology, and sociology. It is only recently that it has come to be felt that the results from these sciences may be applied to practical business affairs, although the first, psychology, has been considered as a basis for the study of pedagogy for many years. But the psychological problems of the teacher and the salesperson are essentially the same, and whatever in the science of psychology has been found of value in explaining the processes of learning may likewise be used in explaining the processes of selling. The salesman teaches and the teacher sells. In both, the essential thing is the conveyance of ideas. The only difference be-

tween the two is that in the case of the salesman the ideas are conveyed in the hope that they will function or cause decision at once, while with the teacher, the practical functioning of the ideas conveyed, except through recitation, is often postponed for a long time.

Specific education for retail salespeople through the public schools is now under consideration in several places. Some experiments have already been made in Extension Divisions of the Universities of Wisconsin and Minnesota, in the Boston public schools, in Los Angeles, and in a dozen or more other places. Many retail stores have educational departments for their own employees. In addition to these educational beginnings, much is already being accomplished through the retail trade papers whose contents and evident purposes have greatly changed and improved during the last ten years. The trade paper is rapidly coming to mean to the retailer and his salespeople what the professional journals mean to physicians, lawyers, and teachers respectively.

The need for specific education for those who are to become retail salespeople is evident, and, as we have seen, the demand is likely to become greater as time goes on. It may not be too much to predict that such training will soon be considered a necessary part of the work in every city school system.

Bibliography

Atkinson, W. W. "The Psychology of Salesmanship," 1913.
Beaching, C. L. "Grocery Business," Chap. x.
Beynon, R. "Drapery and Drapers' Accounts."
Corbion, W. A. "Principles of Salesmanship, Deportment and System," 1907.
Educational Training Course. *Retail Shoe Salesman's Guide,* 1913.
Farrington, F. "The Clerk's Book," 1907.
Fowler, N. C. "Practical Salesmanship," 1911.
Goddard, F. B. "The Art of Selling," 1889.

Higinbotham, H. N. "The Making of a Merchant," 1911.
Hirshler, D. "The Art of Retail Selling," 1909.
Huff, C. L. "Huff's Talks on Real Salesmanship," 1912.
Nystrom, P. H. "Retail Selling and Store Management," 1914.
Puffer, J. Adams. "Vocational Guidance," 1913, Chap. XII, Salesmanship.
Scott, W. D. "Increasing Human Efficiency in Business," 1911.

CHAPTER VII

THE WAGES OF SALESPEOPLE

Wages in a retail store constitute the largest single expense item, and out of this total, the amount paid for selling, that is to salespeople, is normally the largest part. The expense for salespeople's salaries or wages varies a great deal with different lines, with different stores, and to a considerable degree within the same store, and even within the same department. For example, general averages for five department stores known to the writer range from 5 to 8 per cent of the total net sales, but within the stores the wages of the salespeople range from as low as 2½ per cent in some departments to as high as 12 per cent in others. These figures are corroborated by practically every statement of department store expenses that has been made public.

The following [1] is one of the best statements that has come to the attention of the writer. It shows the average percentage of expense for three of the large department stores of New York, and also the specific percentage of expense of one of the three stores for 1912, 1913, and 1914. The only criticism that may be offered from the standpoint of the purposes of this chapter is that the figures include not only salaries for salespeople but also buyers, stock clerks, and other labor directly chargeable to the department.

[1] Adapted from tables presented in the *Dry Goods Economist,* September 27, 1913, October 25, 1913, April 25, 1914, and March 27, 1915.

PERCENTAGE OF EXPENSE FOR SELLING BY DEPARTMENTS IN NEW YORK DEPARTMENT STORES

Departments	Average for three stores	Actual for one store in 1912	Actual for same store in 1913	Actual for same store in 1914
Books and stationery.....	9.0%	9.5%	9.4%	11.4%
Carpets, mattings, rugs....	8.9	7.9	7.2	6.9
China, glassware, lamps ...	9.8	11.1	10.7	11.6
Clothing (men's and boys')	8.9	8.1	8.1	6.6 Boys' 9.4 Men's
Corsets	5.8	..	..	..
Dress goods	9.8	12.6	9.0	9.7
Furniture and bedding	8.0	12.2	9.9	9.6
Furs	6.3	6.7	9.9	8.5
Gloves	6.1	5.7	5.9	5.8
Groceries	9.4	8.5	8.5	8.8
Handkerchiefs	6.6	6.8	7.6	6.9
Hosiery	6.0	6.3	6.0	6.4
Infants' wear	7.3	5.0	4.9	5.3
Jewelry, silverware, cutlery	9.4	9.3	9.2	10.0
Laces, embroideries, veilings	8.2	8.5	8.1	8.5
Leather goods	6.4	6.4	6.9	7.1
Millinery	8.7	..	..	..
Muslin, underwear and underskirts	6.5	4.9	5.4	5.6
Neckwear (women's)	8.8	8.5	8.3	8.7
Notions and art embroidery	9.4	7.7	8.0	8.6
Pictures	10.8	10.8	11.3	11.7
Ribbons	9.4	7.4	6.2	8.8
Sewing machines	8.3	8.3	12.3	15.7
Shoes (women's)	9.7	8.8	9.0	9.1
Silks and velvets	8.4	8.4	8.4	8.4
Suits and coats (women's)	8.0	7.1	7.0	8.1 Suits 7.4 Coats
Suits (misses')	7.7	7.4	7.7	..
Toilet goods, drugs, perfumery	7.8	8.0	7.8	6.5
Toys	12.9	13.1	13.9	13.9
Trimmings	8.4	9.3	9.3	10.6
Umbrellas, parasols, canes.	5.9	4.7	..	..
Underwear (knit)	7.9	6.2	6.0	6.8 Men's 6.1 Women's
Upholsteries	9.5	9.4	10.0	10.0
Waists and women's sweaters	7.7	7.0	6.8	6.7 Waists 4.9 Sweaters
Wash goods	10.3	9.9	9.1	9.4
White goods, linens	7.6	6.2	5.7	6.5
Wrappers, kimonas	8.7	7.0	7.1	7.7

Similar ranges in percentages are frequently found within a given department. The writer has seen cases where salespeople working within a given department were costing the firm from 3 per cent to 10 per cent of their sales, and a fact of interest in this connection is that those salespeople costing 8 and 10 per cent were receiving the lowest salaries. A girl drawing 10 per cent of her sales was getting $5 per week while one drawing 3 per cent was getting $15 a week. The opportunities for making sales were about equal in both cases, except that the $15 a week saleswoman was of such well known excellence that customers would wait for her when she was busy with other customers rather than have other salespeople attend to their wants. Nothing could demonstrate more clearly the difference between salespeople than such facts as these. From a business standpoint, the saleswoman getting $15 a week was grossly underpaid. She should have received at least $25 per week, while the salesperson who was getting $5 per week was much overpaid.

The following average percentages of sales for salaries of salespeople may prove helpful: [2]

Groceries	7.96%
Furniture	8.73
Variety stores	8.86
Clothing	9.49
Dry-goods	9.65
Hardware	10.11
Shoes	10.51
Drugs	10.93
Jewelry	10.96

The Harvard Retail Shoe Store Investigation found that salaries for the sales force ranged from 5 to 10.3 per cent

[2] *System*, Feb., 1914.

of sales, that 8 per cent was a common figure, and that 7 per cent was a good efficient level of expense.[3]

Salaries for boys in retail stores usually start at from \$3 up to \$5 or \$6 a week, depending upon age, strength, alertness, and general indications of adaptability to the business. Salesmen's salaries range from \$12 to \$18 per week generally. In a few cases, salesmen in some departments, and in specialty stores dealing in goods such as rugs, furniture, or silks, receive as high as \$35.00 or \$40.00 per week. A majority of the men in retail stores never pass \$18 per week.[4]

Salaries of women in retail stores have been investigated in several places in the country during the last few years by various public and semi-public organizations. The reports of these investigations throw considerable light upon the economic condition of saleswomen. According to a special government report, "Wage-Earning Women in Stores and Factories," female employees in 26 department and other retail stores in New York, Chicago, and Philadelphia received salaries or wages as follows:

Cash girls, messengers, inspectors, bundle wrappers, and packers received from less than \$3 up to \$10 per week, but more than two-thirds of them were getting less than \$5.

Saleswomen received from \$3 up to \$25 per week and even more, but more than half of them were getting from \$6 to \$9 per week.

Of all women employed, 76 per cent were getting less than \$10 per week. The average wage for all women employees in stores was found to be \$7.93. The average for saleswomen was found to be \$8.84 per week.

Low as this is, this figure was found to be somewhat

3 Bulletin of the Bureau of Business Research, Harvard University, Number 1, May, 1913.

4 "The Department Store and Its Opportunities for Boys and Young Men," pp. 77–78.

higher than for women employed in factories, and, besides, as it was pointed out, the saleswoman continues to draw a higher and higher salary after the factory-employed woman ceases to get any better pay. The tendency to recognize in store work the need of special ability acquired through experience is clearly evidenced in the increase in salaries in accordance with the length of time spent in store work.[5]

To a certain extent, it also seems clear that the limits of salary are set by the efficiency of the employee herself. The general levels of wages for salespeople expressed in the average percentage cost of selling are probably fixed by forces beyond the control of individual salespeople, but the amount of income based upon such percentages is largely dependent upon the skill of the salesperson.

Wages in retail stores are usually paid on a time basis, as for example, so much per week, or month; on a commission basis, as for example 5 per cent of total net sales; or on a combination basis of a certain amount per week plus a commission of a certain percentage on all sales above a given amount. While salespeople's salaries must always bear a certain ratio to the sales made, still the regular time wage is widely used and in many ways has much to commend it. A straight commission is theoretically the ideal method of paying salespeople, but in most retail stores is very difficult to carry out properly. Unless very carefully established, it may lead to much friction among the employees(1) Some of them are likely to rush ahead of others in trying to get an opportunity to serve customers 2 others will try to avoid all other work, such as care of stock, in order that they may be ready for customers all of the time 3 Customers with small orders are likely to be neglected for those with large

5 "Wage-Earning Women in Stores and Factories," Vol. V in report on condition of Woman and Child Wage-Earners in the United States, pp. 41–48.

ones. Salespeople will try to force the selling so as to make as many sales as possible per day. Also unless a difference is made in the commissions paid for selling various goods, the salespeople are likely to sell only the newest and most desirable goods, leaving old stocks and "stickers" to accumulate. Cases have been known where some of the salespeople actually hid desirable goods so that other salespeople in the same department could not make sales from them. The results of these tendencies are hurtful, not only to the general spirit of the store, but also to the store's trade.

It is also a difficult matter to adjust commissions at the proper level for each of the great variety of goods handled by most stores. Not only should the commission be adjusted to the kind of goods, but should also be adjusted to different articles in some fair proportion to the difficulty of selling them. For example, older goods, as a rule, need higher commission rates than goods just received; novelties need a higher rate than staples; style goods and goods requiring care and time in fitting need higher commission rates than goods that are standard all of the time and which take but little time to sell. So, while the commission rate is, theoretically, the best plan of remunerating salespeople, it seems practicable only in stores that are large enough to carry the division of selling labor to a very fine degree. When a salesperson sells nothing but handkerchiefs, for example, or hosiery, or men's collars, a flat commission rate is possible.

The combination of a straight wage and a commission is much more generally used and much more practicable for most stores. Sometimes a commission of a certain percentage, say 3 per cent or 5 per cent of sales, is paid after a certain sales quota has been reached. In some cases additional amounts are added to the wage in the form of a bonus

or premium for sales above a certain quota, for punctuality, or for a high rating based on a consideration of sales, freedom from errors, punctuality, and so on.

Still another form of premium commonly used is the "PM" or "spiff," a special payment for pushing stock that seems to have developed "sticker" qualities. Unseasonable goods, and other goods in any way undesirable, are frequently marked "PM" and the salesman succeeding in selling them gets the stated "premium" or "spiff." The amount of the PM usually runs from 10 cents up to 50 cents per article, depending upon the kind of goods. In selling women's garments, a 1 per cent PM is quite frequently used.

Profit sharing is another device for remunerating salespeople that has been widely heralded as the solution of the wage question, but has not yielded the results generally hoped for by its advocates. With a few firms, as for example, "The Great Department Store," of Lewiston, Maine, profit sharing has apparently proved very successful.

The methods used in profit sharing schemes vary considerably. One of them requires that, after all expenses for the year or other period of settlement have been paid, a certain percentage of profit, say 6 per cent, is set aside as the net profit due to the management. All remaining funds are distributed among the employees. In other cases, after all expenses are paid the net profits are divided among labor, capital, and management in equal parts. In other cases, certain parts of the net profits are set aside as provident funds to be paid after a term of years in the form either of an old age pension, or an annuity. In still other cases, life insurance for employees is provided from the net profits.[6] Several of these features are combined in some institutions, as for example in the great French store, the Bon Marché.

[6] Adams and Sumner, "Labor Problems," Ch. IX.

Among the American stores which are carrying out a plan of profit sharing, some pay a certain percentage, say 5 per cent, of all sales in excess of the sales for the same months of the year preceding, while others pay a straight percentage, say 3 per cent, on all sales above a certain point. These methods obviate the necessity of making known to the sales force the exact financial condition and net profits of the concern.

The most common method of distributing profits is on the basis of the salary received, that is to say, the salesperson whose salary is $12 per week gets twice as big a share of the profits as the one whose salary is $6 per week. Some concerns distribute upon the basis of sales, and others distribute in a more or less arbitrary fashion, thus hoping to equalize the differences in the conditions and the opportunities for making sales of all members working in the store.

Another common form of profit sharing is the distribution of shares of stock or other evidences of ownership to employees, either upon favorable purchasing terms or as a reward for faithful service over a term of years.

The purposes of profit sharing, premium paying, and bonus granting are, first, to get the salesman to use his own initiative and ambition in furthering the business of the concern, and, second, to tie the good employees to the concern so that they cannot be drawn away, either into independent businesses of their own or to competitors. These purposes demand that the systems adopted must be such as to avoid such friction among salespeople as straight commissions arouse; that the rewards must be great enough to awaken their interest and ambition; and that settlements should be made frequently enough to keep the end of the period in mind from the start, and yet have it long enough so that the amount payable at its end in the form of profit, shares, bonuses, or premiums may seem worth while. Bo-

nus and premium schemes apparently work best in institutions that give every employee a chance to earn something extra besides a regular salary, and which adjust the rules or conditions of earning the bonuses or premiums so that those who are engaged in places in the store unfavorable to making a good showing are given all due allowance.

Premiums in the form of PM's and spiffs, prizes and commissions for sales above quota are usually paid weekly, or whenever the regular wage is paid. Profit shares and bonuses are generally paid annually or semi-annually. The argument for the annual payment is that in this length of time the shares or bonuses amount to a good deal in the case of the best salespeople, and the prospect of losing this amount keeps them from seeking employment elsewhere, at least until after these bonuses have been paid. Such payments are usually made at about the beginning of the calendar year, or just after the holiday rush of trade.

In practice salespeople receive remuneration other than direct salaries in a variety of ways. Discounts of from 10 to 20 per cent on merchandise purchased from the store are granted by many stores. The lower figure is the most common. A few stores allow no discounts at all, and most stores give discounts to apply only on goods for the salesperson's personal use. A few stores add the proviso that discounts shall apply only on goods for personal use or for the use of persons wholly dependent upon the salesperson. Special discounts are usually given on dress goods to be used in making uniforms required by stores for their employees.

Gifts, prizes for suggestions, Christmas presents, vacations on full pay, occasional banquets, gymnasium suits, musical instruments for bands, books and papers for the employees to read, educational courses in salesmanship, in millinery, in domestic science, in art, in elocution, in music,

dancing, and foreign languages are frequently supplied to employees.

Under the head of welfare work, large stores go into a great many things of interest and value to their employees. Singing societies, baseball clubs, orchestras, bands, theatrical societies, cadet corps, athletic clubs, literary societies, and other organizations are established and assisted.[7]

The larger stores encourage thrift and economy among employees by means of savings and loan associations, sick and death benefit associations, and even by building and loan associations. The purpose of the savings and loan association is to encourage all members to lay aside a fixed sum of money every pay day, and, in cases of need, to make loans to individual shareholders at reasonable rates of interest. By this means the loan shark business, which has always obtained some patronage among retail salespeople, is materially reduced.

The sick and death benefit associations collect regular dues from their members during earning periods and then pay weekly benefits in case of sickness, and a stated amount to the deceased's family in case of death.

The following tables indicate the amount of dues collected and benefits paid by typical benefit associations. The general rules governing membership follow each table.

Espenhain Employees' Mutual Benefit Association

Class	Salary per Week	Dues per Month	Sick Benefits per Week	Death Benefits
A	$2–$4	10c	$2.00	$50.00
B	4– 6	20	3.50	50.00
C	6– 9	30	5.00	50.00
D	9 and up	40	8.00	50.00

7 Employers' Welfare Work, Bul. 123, U. S. Bureau of Labor Statistics (1913). Tolman, W. H., "Social Engineering," pp. 48–61 (1909).

Membership is voluntary and granted upon written application.

An employee must have been a member of the association at least 30 days prior to his or her sickness in order to be entitled to benefits.

Notice of sickness must be made in writing within three days.

Notice must be accompanied by a physician's certificate.

If illness continues for more than one week, physician's certificate must be for each week.

Benefits are not paid for less than one week nor more than twelve weeks within a year.

Any person feigning sickness or disability, in order to procure benefits, is expelled by the board of directors, and may not be reinstated.

All late and error fines collected from all employees of the concern go into the benefit fund.

Benefit funds are invested either in first mortgages, bonds, or with a reliable bank or trust company.

The Wanamaker Mutual Insurance Association of Philadelphia

Class	Salary per Week	Dues per Month	Sick Benefits per Week	Death Benefits
1st	Below $3	10c	$1.50	$ 50.00
2nd	$3–$ 5	25	2.50	100.00
3rd	5– 7	40	4.00	125.00
4th	7– 10	50	5.00	150.00
5th	10 and up	60	6.00	200.00

Membership is compulsory. All regular employees of the firm shall be members and eligible to benefits.

No member shall be eligible for benefits until after having been in actual service three full months.

Benefits shall not be paid for a period exceeding thirteen weeks from date of illness.

Notice must be sent to the secretary of the association within three days of the date of sickness.

Only half benefits shall be paid for the first week of any illness.

If dues do not cover the necessary benefits, special assessments may be made, and regular dues may be omitted if funds in the treasury are sufficient for current needs.

The firm of John Wanamaker will be or shall appoint the treasurer.

In the development of great movements of these kinds the progressive department stores of the country have al-

ways led. John Wanamaker in his Philadelphia and New York stores, Marshall Field in Chicago, and Wm. Filene's Son's Company in Boston are well known concerns that present the highest type of organization for the individual and social betterment of employees, entirely aside from the regular work of the store. Such effort for the benefit of employees would be quite impossible for a small store.

Coupled with the wage system there is in many stores a system of fines imposed upon salespeople and other employees for tardiness, errors in making out sales checks, for breakage, for mismatching goods, and so on. No part of the retail store system has caused so much ill will among its employees as the application of fines in a careless way. In fact, it has seemed very difficult to assess fines in any way that did not create trouble sooner or later. It is generally reported that the system is on the wane.[8]

The generally low wages prevailing in the retail business have attracted a great deal of attention not only from the standpoint of economists, social workers, and the public at large, but also from thinking merchants. The wages of salespeople are admittedly low, but the supply of people ready to go to work in stores has nearly always been more than adequate. In consequence the wages have been pushed down to a point at which an adult finds difficulty in supporting himself or herself upon the average amount paid. The situation has been complicated by the fact that there have been no standards of efficiency, no special qualifications or skill required for entrance into the business, and by the employment of great numbers of very young people. Over two-thirds of all saleswomen investigated by the Massachusetts Minimum Wage Board Commission were under the age of 24 years.

8 Report of the Massachusetts Commission on Minimum Wage Boards, pp. 106–107.

The employment of women has complicated the matter still more because of the fact that a very large proportion of them, three-fourths or more, according to the reports of all investigators, live at home or with relatives. A large number of these are not required to contribute to the support of their homes, and may, therefore, use their wages as "spending money." Some are even partly supported by other members of the family, while only comparatively few have to help support others. The general average youth of female workers shows that they are dropping out of the occupation of retail salesmanship after a few years' work at the most. Work in the store serves merely to tide over the period from the time that they reach sufficient maturity to be gainfully employed to the time of marriage. These facts cause women, in particular, to accept work of this kind at lower than living rates, and thus cause wages for the whole class of retail salespeople to fall to their present low levels. The general result is a big unsettled problem for the independent salesman or saleswoman who is supporting himself or herself and wishes to make a life-work of salesmanship in retail stores.

One of the methods proposed to meet this problem is the establishment of a minimum wage. In discussions of this subject one finds the idea emanating from three different sources. Employers of several large stores have voluntarily established minimum wage scales for their own establishments.[9] Some attempts have been made to secure minimum wage standards fixed through organizations of

[9] The writer is informed that the following firms adopted minimum wage scales during the years 1912 and 1913:

Wm. A. Filene Sons Company, Boston	$8.00
Hannah & Lay Mercantile Company, Traverse City, Michigan	7.00
B. H. Gladding Dry Goods Co., Providence, R. I.	8.00
Blakeley Dry Goods Co., Spokane, Wash.	9.00
Greenway & Hughes, Wichita, Kan.	7.00
Louis Traxler Company, Dayton, O.	7.00
Hager and Brother, Lancaster, Pa.	6.50
M. T. Garvin & Company, Lancaster, Pa.	6.50

salespeople in the form of labor or trade unions. Lately, we have heard much in this country of the establishment by law of minimum wage rates, particularly for women and children.

Besides the minimum wage scales established voluntarily by retail firms for their own employees, there has been a considerable movement among retail salesmen to establish minimum wage scales in much the same way as that followed by laborers in many other lines, that is by organization and collective bargaining. As far back as 1863, there was organized among women employed in stores and factories a society known as the "Working Women's Protective Union" whose aim it was to raise the wages of working girls and women, but more particularly to aid members in collecting sums due them from employers. During the early days of woman labor in stores and factories in this country, considerable fraud of this kind was practiced and many employees were beaten out of their wages.[10]

There were regular unions among salespeople and for salespeople exclusively as early as 1882. At that time seven local unions were drawn into the big general organization known as the Knights of Labor. In 1890, these withdrew and were forthwith united with the American Federation of Labor.

These pioneer early unions of salespeople were generally called "Early Closing Societies," their main object being named in the title. When joined with the American Federation of Labor, the name, "Retail Clerks' National Protective Association," was adopted, which was later changed to "Retail Clerks' International Protective Association."[11]

The objects of the "Retail Clerks' International Protective Association" as expressed in its preamble are, to

10 Hyslop, J. H., "Shop Girls and Their Wages," *Andover Review,* 16:455.
11 *Retail Clerks' International Advocate,* September, 1906.

improve the conditions of retail clerks, secure reasonable compensation, oppose long hours and Sunday labor, disseminate useful information by means of lectures, pamphlets, and other literature, demand comfortable seats for lady clerks, and equal pay for equal work, oppose child labor and to provide a benefit fund for sick, aged, and indigent retail clerks.

In 1906 the association had formulated its demands to the extent of requiring stores to employ only union employees, to observe a 9 hour working day and a 52 hour week, with pay at one and one-half times the regular rate for overtime, varying in practice, however, to suit local conditions, and to settle by arbitration all disputes between employer and employee.

This association has grown so that it now has locals in nearly every important city in the country. Since 1891, it has published a monthly organ, the *Retail Clerks' International Advocate*. It has employed the strike and boycott as a means of bringing employers to terms; but on the whole it has not been, and is not now, apparently, a very strong union.

Considerable outside support has always been lent to the organization of retail store employees for the purpose of bettering their condition. A great deal of work was done for salespeople before they were organized, and in lines where organization has not yet been effected, such associations as the "Women's Educational and Industrial Union" of Boston, an organization of the same name in Buffalo, and the "Protective Agency for Women and Children" in Chicago, have been of material assistance. Lately, the "Consumers' League" and the "Women's Trade Union League" have interested themselves a great deal in better conditions for store employees. These organizations have even gone so far as to assist materially in efforts to get the

salespeople to organize into unions, and to encourage saleswomen, particularly, to make demands for higher wages, shorter hours, seats back of the counters, and, other improved working conditions.

Unions among salespeople are not unknown in other countries. "The National Amalgamated Union of Shop Assistants, Warehousemen, and Clerks," "The Amalgamated Union of Co-operative Employees," and the "Irish Drapers' Assistants' Benefit and Protective Association" are well known British organizations numbering thousands of members.

A third form of minimum wage, and the one most commonly thought of by the public whenever this subject is mentioned, is a minimum wage fixed by legislative act. Such acts were passed several years ago in Australia and New Zealand. Victoria enacted a minimum wage law as early as 1896, New Zealand had wage boards before, but passed a wage act in 1905. England passed a comprehensive minimum wage act in 1909. In this country between 1912 and 1914 laws upon this subject were passed in nine states, namely, Massachusetts, California, Colorado, Minnesota, Nebraska, Oregon, Utah, Washington, and Wisconsin. Several other states had similar measures under consideration in 1913, and it seems not unlikely that several other states will soon pass similar acts. The purpose of the minimum wage law in this country is ostensibly to protect certain classes of workers, such as women and children, who are relatively weak in bargaining power. It has been felt that circumstances are against the woman and child employee, and that, when left to natural market operations, they are not able to get wages high enough to support themselves. The arguments usually cited for a legal minimum wage are as follows:

1. If wages are lower than the cost of living, society

must make up the difference in some way to the individual — hence why not directly through the wage?

2. Less than a living wage causes deterioration of the individual, and to that extent, of society. Poorly fed, poorly clothed, and poorly housed individuals make poor citizens.

3. A better wage means greater efficiency and, to a certain extent, at least, a better and bigger product.

4. The strain of living from hand to mouth is removed from the wage-earner, and he or she becomes more contented, more happy, and, therefore, more efficient.

5. A minimum wage eliminates cut-throat competition among business competitors. It gives to each more equal opportunity since each must pay the same minimum wages.

6. Parasitism will be eliminated. It is claimed by some that retailing does not bear its own burden of expense, that it must have cheap labor in order that goods may be sold to the consumers as cheaply as at present. Raising the wages will, therefore, raise prices. Retailing will not then be in a position of drawing help, in the form of underpaid labor, that must be supported by other classes of society.

7. Finally, women and children, it is claimed, are not able to bargain on equal terms with their employers for a living wage, and, consequently, employers sometimes take advantage of their weakness and pay them less than their services would bring if properly marketed.

Merchants who favor a minimum wage go further and point out that, as a matter of expediency, no merchant trying to do a legitimate retail business should oppose it. The tendency of the public thought at the present time seems to be towards a minimum wage. To oppose this thought is to antagonize the public upon whose support the retail store depends directly for existence. Merchants favoring the plan also hold that the increase in wages will result in a selection

of employees with better care, and that the unemployment of the younger and inexperienced classes will force the public to establish systems of education to fit them for the minimum wage. In the long run it is felt that any increases made necessary in retail expenses because of higher wages can and will be shifted to the consumer.

The arguments commonly heard against the minimum wage are as follows:

1. The inefficient will not be hired at all if a wage higher than they can earn must be paid. Thus many people will be deprived of earning anything, or contributing anything to the support of their families.

2. The inducement to do better work and to enter higher classes of employment will be lessened. It is felt that employees will simply lean back on the minimum wage and wait for the state to boost that payment rather than work individually for better things.

3. Stores depending for business drawn from near the boundary lines of states and located in a state where a minimum wage law is put into force will be hurt if minimum wage laws are not also put into effect in the near-by states. In other words, stores so located will lose business to stores across the line in other states.

4. The minimum wage will tend to become a maximum.

5. "If the state fixes a minimum wage, it is logically bound to furnish employment at that wage."

There seems to be no question that as long as there are plenty of prospective salespeople to select from, the more inefficient will lose their positions under a minimum wage law, if their present wages are not equal to the minimum proposed. But a reasonable administration of a minimum wage law — a law that permits reasonable exceptions, under carefully worked out restrictions — will provide special classifications for such employees. One of the results that

seems certain is that the public will then have its attention called to the necessity of adopting some form of specific education for the work of retail selling. This would, in the long run, be a most desirable thing, not only for the salespeople themselves but also for the retailers and the public.

That a minimum wage will reduce initiative and ambition and that the minimum will tend to become the maximum are arguments that have been used against all minimums of wages set by trade unions for years. These arguments have never been clearly proved for any trade, and in a business like selling where personality counts for so much, and where the means for measuring efficiency are so easy, it will be much harder to prove it than for most other lines of work.

It does not appear clear that the state must furnish employment if it sets a minimum wage, any more than that it should engage in making pure food or drugs simply because it passes a pure food and drug act, or that it must run steam engines simply because it fixes certain requirements for their operation. The view represented by this argument against the minimum wage results from confusing the function of the state as a regulative body, and from not distinguishing the necessity for rules in the conduct of business — as well as in any other social activity — with a participation in business itself. The state exists for the purpose of protecting the rights of all, and in the performance of this function it must make rules and enforce them. Some rules may be made unwisely, some regulation may be unjust or unnecessary, but such errors do not constitute an argument against the principle of regulation.

In conclusion, the standards for both the wages and efficiency of retail salespeople seem to be tending upwards. Both are too low at the present time, but even under the

present wage standards, based on the usual percentages for salaries on sales, the more efficient are able to make fairly good wages. This suggests the possibilities of a practical education for salespeople; taking young people who have been sufficiently prepared in the regular courses of the schools, and giving them a training directly for the retail business. No good reason has been presented why this sort of training should not be given through the public school system, even as training is given in agriculture, domestic science, and the many mechanical trades that have been introduced. It is to be presumed that such educational work will be established in the public school systems, and it promises to be the next great step, both in the field of vocational education, and in the development of more efficient retailing. The new ability that such educational work would give to salespeople would make them earners of higher wages at present rates, but it is entirely likely that with the increased understanding of their business and its functions involved in such an education, the army of workers in the retail field would gradually force a somewhat higher wage standard, whether minimum wage standards were adopted by law or not. In any business there should be no question as to whether or not it supports itself and pays its own expenses. With an educated sales force performing well its work for the public, and fully realizing the responsibility and importance to the public of this work, the retail business will be able to take its place among the most honored and best paid professions.

Bibliography

Wage-Earning Women in Stores and Factories, Vol. V. In Report of Conditions of Woman and Child Wage-Earners in the United States, 1910. 61st Congress, 2d Session, Document No. 645.

Wages of Women in Retail Stores. In Report of the Massachusetts Commission on Minimum Wage Boards, 1912, pp. 88-142.

Neighborhood Department Stores in Chicago. U. S. Bureau of Labor, Bulletin No. 91.

Report of the National Civic Federation on Conditions in Department Stores, 1913. Published in the *Federation Review.* Reviewed by *Nation,* July 31, 1913.

Van Kleeck, M. Working Conditions in New York Department Stores. *Survey,* 31:50–51. Criticism of the report of the National Civic Federation.

Butler, E. B. Saleswomen in Mercantile Stores. Baltimore, 1909.

MacLean, Annie M. Two Weeks in Department Stores. *American Journal of Sociology,* 4:721.

Dry Goods Economist, New York, published a number of articles bearing on the minimum wage during 1913 and 1914. Both sides of the question are presented from the standpoint of retailers. The April 3, 1915, number contained a valuable summary, "Salary and Bonus Systems for Salespeople."

Pigou, A. C. Principle of the Minimum Wage. *19th Century,* 73: 644–58.

Clark, J. B. Minimum Wage. *Atlantic Monthly,* 112:289–97.

Webb, S. Economic Theory of a Legal Minimum Wage. *Journal of Political Economy,* 20:973–98.

Millis, H. A. Some Aspects of the Minimum Wage. *Journal of Political Economy,* 22:132–59.

Kelley, Florence. Minimum Wage Boards. Proceedings of the National Conference of Charities and Corrections, Cleveland, 1912.

Perils of the Minimum Wage, *Century,* 84:311–3.

Ryan, J. Living Wage. *Survey,* 27:1623–4.

CHAPTER VIII

LOCATION AND RENT IN THE RETAIL BUSINESS

The Principles of Rent Applicable to Retail Store Locations

Emerson

Some unknown person has said, "If a man makes even a mouse trap better than anyone else, though he build his hut in the woods, the world will make a beaten track to his door." Although widely quoted and having the ring of wisdom, as a maxim of practice the saying has no value. There is now scarcely an article of commerce so necessary, or so fine in quality, as to tempt the masses of buyers a single step from the regular channels of trade without a good deal of coaxing. The maker of the "better mouse trap" would find it much more to his profit to "build his hut" by the traveled wayside and supplement the advantages of his location with an attractive window display.

In no branch of business is location more important than in retailing. The oldest books on trade, as well as the most recent literature, emphasize this point. Shopkeepers and traders have always congregated in certain locations in populous communities. Where legal ordinances have not interfered, it is likely that these locations have always been the points at which the greatest possible amount of retail business could be transacted. Every merchant of experience knows something of the comparative value of retail sites. The buyer of a store considers the value of the location first of all. The credit manager of the wholesale house inquires

concerning the location of the store whose owner seeks his department's O.K. Failure statistics show that many bankruptcies are due directly to poor location. If figures could be given showing the number of cases in which a bad location was a contributing cause to failure, there is no doubt but that it would rank extremely high. Any study of retailing must take location into consideration.

Rent is the payment that the retailer makes for his location and for the use of the buildings and improvements there may be thereon. It matters not if he own his store and the land that it is built upon, for in this case the rent that he would otherwise pay to another person simply goes to himself.

Rent, as the term is generally used, is made up of two parts — *building rent* and *ground rent.* Building rent commonly covers a number of items such as upkeep or depreciation charges, taxes on the building and improvements, insurance, and real estate brokers' or rental agencies commissions, together with any other charges paid by the landlord for the tenant, such as janitor's services, water, light, heat, power, and elevator service. What remains of the building rent after these charges have been paid is generally looked upon as the interest or return upon the money invested in putting up the building and making the improvements. Rarely is it more than the average interest rate on funds offered in the open markets. Ground rent is the payment made by a retailer for the space his store stands on. But the value of this space depends almost entirely upon its location. Hence it is virtually true that ground rent is the retailer's payment for location.

The distinction between building rent and ground rent is recognized by many business men in their accounts and records. In England it has long been customary, especially in the larger cities, for landlords to lease unimproved city

lands for long periods to merchants and others who put up their own buildings, but who pay rent for the use of the land. This custom seems to be on the increase in the larger cities of this country. In these cases the distinction is kept clear in practice. Some states and municipalities require separate assessment of land and improvements for purposes of taxation. Tax reformers of the Henry George type accept this division as fundamental. Courts frequently cause land and improvements to be valued separately in condemnation proceedings.

Clear thinking demands that the same distinction should be made in any discussion of retail rents. It is unfortunate, however, that nearly all statistics that are available, such as figures drawn from retailers' accounts on the costs of doing business, lump building rent and ground rent together. What part should be assigned to each is impossible to tell. There is a rule among some real estate men that may serve as a guide to a rough approximation. This rule is that the amount invested in buildings and other improvements for retail purposes should be about equal to the value of the ground.[1] Since the ground value is normally the capitalized value of the rental, the returns to the ground and its improvements, at least while the latter are new, will be about equal. For example, if the net rental of a certain retail store amounts to 2 per cent of the sales, one may roughly estimate that 1 per cent goes to the buildings and improvements and the other 1 per cent to the ground. This rule is only an approximation and plenty of exceptions may be found. It is representative of the average rather than the actual in any particular case.

The amount of rent paid for the location depends upon its comparative desirability. In a town where all locations are equally good for retail store purposes, and where there

1 Hurd: "Principles of City Land Values."

are more locations offered than can be used, the rent for any one location will naturally be low, probably not more than would be paid for similar property used for residence purposes. Such a condition is rarely the case, however, except in small country villages having no special features causing a concentration of the retail business at any given point. Where there exists a considerable difference in desirability, and where there is competition for the more desirable locations, the rents will tend to vary with the desirability. The more desirable the location is, the higher its rent will be. In other words, ground rent, in the retail business, is paid for comparative advantages in location.

To illustrate, let us assume that a merchant has under consideration two locations, one in which he can make sales amounting to $24,000 a year, and the other in which he can make sales amounting to $30,000 a year on the same capital investment. Eliminating all other possible differences between the two locations, let us assume that the sales in both cases will yield a gross profit or margin of 33⅓ per cent and that the expenses in each case, excepting the rent item, amount to 23 per cent of the sales. The net margin to cover rent and net profits would thus be 10⅓ per cent in each case, or $2,480 for the first location and $3,100 for the second. If both locations could be procured at the same rent, say $40 a month, or $480 a year, the difference in favor of the second location becomes evident, amounting to $620.

But the owner of the second location, if he knows the value of his property, will want more than $480 per year. He may say to the merchant, "My location will bring you an increase of $6,000, or 25 per cent more business than the other one. I must, therefore, have 25 per cent more rent for my location. Instead of $480, I must have $600 per year." Reducing these figures to percentages of the

sales in each case, it will be seen that $480 is 2 per cent of the sales at the first location, and that $600 is 2 per cent of the sales at the second location. In other words, in raising the rent of the second location from $480 to $600 per year, the landlord is only keeping his rent in the same proportion to sales as exists for the first location. It is practically certain that under the circumstances the landlord would be able to get at least this amount of rent.

But the merchant tenant will still find the second location more desirable than the first. The gross margin in each case, it will be recalled, is 33⅓ per cent and the expenses of doing business amount to 23 per cent plus 2 per cent for rent, or 25 per cent of sales. This leaves a margin of 8⅓ per cent net profit in each case. Now 8⅓ per cent of $30,000, or $2,500, is $500 more than 8⅓ per cent of $24,000, or $2,000. Thus $500 is still the measure of desirability in favor of the second location.

In the bargaining process between the merchant and his landlord, especially if there are other merchants competing for the same location, the $500 surplus just indicated will be an object of serious interest. Some one of the merchants is likely to offer more than $600 a year for the location, thus virtually offering to divide this $500 surplus profit with the landlord. In the competitive bidding that we are assuming to follow, the landlord finally closes with the merchant who offers to give him the greatest portion of it.

Under most circumstances, the landlord will not be able to get all of it, although that outcome is not impossible. As the rent is fixed at a higher and higher figure, the interest of the merchants begins to wane, certainly while locations of the first kind yielding net profits of $2,000 per year are available. It is the surplus above $2,000 that attracts their bidding. If no surplus is possible, the mer-

chants will stick to the other locations. The landlord may possibly get $300, thus leaving $200 for the tenant. In this case the total rent would be $900 a year, or, under the assumption, 3 per cent of the sales. Thus on passing from poorer to better retail locations the proportion of rent to sales tends to increase.

There is another reason why rents tend to be higher, not only absolutely, but also relatively to sales for the better locations. The competition among the retail store managers of a town is generally very keen for these locations, and the best locations naturally go to the highest bidders. While mistakes often result from such competitive bidding and store managers sometimes find themselves unable to pay the high rents agreed upon and succeed; still, in the long run, the highest bidder is likely to be the one who can make the most out of the property. There are probably as great differences in the managerial ability of merchants as there are differences in desirability of locations. The most efficient manager is the one who can make a location yield the greatest amount of profit. Hence the most efficient manager, other things being equal, is the one who is able to bid the most for the location.

In thus bidding against each other for good locations, store managers are likely to give to the landlord a share of the total product which might properly be attributed to the superior efficiency of the manager.

Take the case of the second location referred to in the illustration used. It was assumed that the merchant could make a gross profit of 33⅓ per cent and a net profit of 8⅓ per cent on his sales. Now, let a more efficient manager appear, one able to cut the selling expense from 25 per cent to 20 per cent of sales, or one able to buy the same goods at from 5 to 10 per cent lower prices, or one able to increase the amount of the sales, and it becomes evident, other

things remaining the same, that such a manager will be able to clear more than 8⅓ per cent profit on his sales. Now, if the number of locations where such efficiency can be exercised is limited, and if two or more store managers of unusual ability should be found in competition for the same location, it is almost certain that the landlord will be able to get as rent more than 2 per cent of the sales, the amount received by the owner of the poorer location.

Suppose three merchants, Smith, Brown, and Jones, to be in competition for the place. Let us assume that Smith is a manager of good average ability and that, therefore, he is able to clear $2,500 annually on the location, when the rent is $600 per year. Brown is a more skilful manager and is able to make $2,800 annually after paying the rent. Jones, let us say, is the most efficient of the three. He is able to make $3,000 a year in the desired location. Smith feels that he cannot afford to pay more than $600 per year for rent, and makes that as his bid for the place. Both Brown and Jones are willing to pay more if necessary. Since all three desire the place, the bids of Brown and Jones soon pass the $600 mark and Smith drops out. Brown continues his bidding up to $900 a year for the place. At this point he finds that it will be unprofitable for him to go further, that other locations offer equal opportunities for him. Jones, the most efficient of the three, makes his bid just a trifle higher, say $901, and then Brown drops out. The outcome is that the landlord receives $301 more rent than he would have received if none other than merchants of average ability, such as Smith, had offered to take the place. Through Jones' superior talents as a store manager the location is made to yield $500 more than Smith or any other average merchant could have obtained from it. Because of the competition of other efficient men like Brown,

the landlord is able to collect $301 out of that $500, leaving $199 to Jones.

It thus seems that the business system is so contrived as to deprive the most efficient men of at least a part of the special product of their efficiency, and that this product is absorbed in the rent for location. To this the land-owning class would reply that the additional product is as much the result of the good location as of the superior man, and that the superior man would never have been able to demonstrate his special talents were it not for the superior location. As to the merits of this controversy, we need give no attention here, except to point out that product is everywhere the result of the economic combination of three things, land, labor, and capital, and that since all three are absolutely essential, it is a most difficult, if not impossible, task to assign any exact measure to the contributions of each, or to estimate definitely the exact product specifically attributable to each.

The method proposed by most economists in their analyses of production, and followed largely in business practice, in determining the share of each factor, is to take for consideration a going concern using fairly well proportioned amounts of labor, capital, and land. The total product of the concern is first determined for a definite period of time. Next, a unit of one or another of the factors is added to the concern, say another average laborer, another $100 in capital in the form of fixtures, or in stock, or in any other form, or a few more feet of land if that be possible. Presumably there will be an increase in the total product of the concern. This increase is credited to the new unit added, and is said to be the product attributable to that unit. It is assumed that this unit of land, labor, or capital is like any other unit of land, labor, or capital already used by the concern, since it may be

exchanged for, or put in the place of, any other unit. Hence the product of any unit of capital already used by the concern is assumed reasonably to be the same as that of the unit of capital last added, or the product of any laborer already employed is assumed to be the same as that of the laborer last added. Multiplying the number of units of any factor by the product thus found for one unit, the product is taken as the part of the total product caused by that factor. Thus the product of all the labor employed is equal to the product of the last man employed multiplied by the number of laborers. In the same way the products for capital and land are found.

The only trouble with this theory is that the total products found as above are not at all likely to be equal to the total product of the going concern. In the case of all successful concerns, the total product will be greater than the sum of the products of the three factors taken separately. How this surplus is treated we shall soon see.

In the division of the product, or the proceeds of the product, each factor tends to get as its remuneration the part or share determined as above. For example, the market rate of labor tends to equal the value of that amount of product which one laborer can add to the total product of the concern. The interest rate for capital tends to equal the value of that amount of product which one unit of capital, say $100, can add, if put to use in the concern. It is a little harder to illustrate the principle with land, as used for retail purposes, although the principle is just as effective. We may say, theoretically, that the rent per front foot tends to equal the value of that amount of product which one unit of land, say one front foot a hundred feet deep, can add if put to use by the concern.

This method of determining the productivity of each factor has practical advantages for the manager of the busi-

ness. By such measurements the manager can tell whether his pay roll is high or low, whether his outgo for interest is high or low, and whether his rent is proportional to market rates or not.

In actual practice, the average business man has but little to say about what the market rates for wages, interest, and rents shall be, but taking the market rates as they are, the business man combines land, labor, and capital in such proportions as will yield him the greatest return. If the market rate for land is high, it may pay him to invest in building an upper story. If land is low, he may expend capital in building his store over more ground space. If labor is high, he may employ less of it in the store, by installing automatic machines of various kinds, open display fixtures, arrangements whereby goods sell themselves, and so on. If capital or money is relatively high in interest, he may economize in fixtures and equipment, and use more labor instead. Thus the business man takes on more labor, or more capital, or more land as long as he can make something over the amount that he must pay out for its use. He will stop adding units of any factor as soon as the product no more than equals the outlay.

The surplus that remains after wages, interest, and rent have been paid, is considered the profits of the concern. By some economists it is further classified as the wages or the profits of good management, and pure or chance profit.

Referring back to the statement concerning the tendency of the more able merchants or store managers to compete keenly for the best locations, an interesting sidelight on the retail business is revealed, namely, that the best or most efficient store managers tend to get the best locations in the long run. The highest bidder gets the place. Normally, however, the highest bidder is the one who can make the most out of the location; hence the highest bidder is in such

a case the most efficient store manager. Mistakes are frequently made in bidding for locations, however, and many men fail to make good under the burden of the rent and other expense assumed in the better locations. Only here and there is there a manager who can meet the high rents and earn a good profit besides. Under the present order of business, this is the only visible, practical measure of efficiency. Thus the sifting process goes sternly on.

So far, we have compared locations of different degrees of desirability. It is evident that a location may change in desirability with the passing of time; hence we may compare the relation of the rent to the earning power of the same location at different times. One of the most common explanations for the rise in the costs of doing a retail business during the last fifteen years is that rents have gone up. In support of this view one writer [2] gives figures from a small department store in a town of about 25,000 population which show that rent equalled 1.9 per cent of the sales in 1883, and 3.2 per cent of sales in 1913. Another writer [3] states that the average rental for shoe stores has gone up from 1.86 per cent of sales to 2.6 per cent in the last fifteen years. Another report indicates that retail rents in Massachusetts were from 30 to 40 per cent higher in 1910 than they were in 1897; and that wholesale store rents had gone up from 10 per cent to 15 per cent of sales in the same time.[4] Similar observations were made by the U. S. Bureau of Labor.[5] Note that these increases are proportional to sales, that is, rents have increased faster than sales.

Two sets of causes are clearly discernible, both of which must be taken into account in explaining these increases

2 Wheeler Sammons, "Keeping Ahead of Rising Costs," *System*, Dec. 13, 1914.
3 Flint Garrison, in the *Drygoodsman*, Nov. 16, 1912.
4 Report of the Mass. Cost of Living Comm., pp. 138–9.
5 Bulletin of the U. S. Lab. Statistics, No. 130, p. 63.

in rent. In the first place, part of the increase is due, not to increase in ground rent, but to building rent. Cost of building construction is much higher now than it was fifteen or more years ago. Such increases in cost must be met in the investment and must be covered by a higher return. Better store buildings, fixtures, fronts, windows, and so on, are required today than ever before. But these improvements have meant additional outlays that must be compensated for by the merchant-tenant who uses the store. These items, interest and upkeep on a higher investment due to higher building costs, and interest and upkeep on a more expensive equipment, certainly account for a large part of the increase in total rent noted by business men everywhere.

Another explanation for the increase in retail rents during the last fifteen years is that the ground rents have been rising. In the period previous to this, many towns came into existence in this country and small towns have grown into large towns. In general, a large part of the country, in this period of time, emerged from frontier conditions. Locations that were comparatively new have become old. But a retail location used continuously, especially if managed in a way satisfactory to the public, naturally draws an increasing trade. As the trade increases, the location is said to improve. This improvement may be due to the active business methods of the store manager, but whatever of such "good-will" remains permanently inheres in the location and not in the manager. There is an old law among dealers that "steady improvements in a retail business follow the stand and not the man." A merchant may sell out and move across the street, but many of his customers will continue to trade at the old location if the service remains the same. Thus, as the cultivation of the trade at a given location proceeds, its value goes up.

As the trade at any location increases, the possibility of making a larger profit increases, and the best locations in a town are nearly always those that have been cultivated by a good business manager for some time. As the desirability of a location increases, the competition for it grows keener, with the result that the rent that will be offered and paid to the landlord will not only increase as the sales increase, but will tend to do so somewhat faster. Thus the same forces which operate to fix relative rents over poorer and better locations, at the same time operate to fix relative rents for the same location as it grows better with time.

To a certain extent, the increases in rent due to some locations becoming more desirable are counterbalanced by the decreases due to other locations becoming less desirable. It is doubtful if in this country the counterbalancing effect equals the tendency to increase. Population has been increasing rapidly, earning power per capita has gone up and the amount of retail business has been on the up grade for several years. Statistics are not available to show clearly whether the number of stores in the country has kept at even proportion to population and to consumption of goods during this time or not. But census figures do show great increases in urban population, particularly in the larger centers, and also that great numbers of small towns and villages are losing ground. Now, it is in the larger cities that the climbing tendencies of retail rents are most evident, and the increases in population that have taken place in such places may reasonably be taken as a cause of the active operation of the rent tendencies above noted. The retrograde movement in the small towns would make but little difference in the general rent tendencies as expressed in percentages of sales, for in such towns the rent percentages have always been and are now low.

That the percentage of rent to sales increases as the

location improves is the testimony of many people. The following quotations will serve to present the typical view:

"The question of taking a lease of such premises will be a most important one. If the premises are in a growing neighborhood, and a shop is taken with no lease, or merely an agreement for two or three years, the tenant will be at the mercy of his landlord at the expiration of that time.

"Should the business increase and become a success, the landlord will most likely require a substantial increase in the rental." [6]

The retailer must also reckon with "a rental that has a yearly probability of increase as he builds up a trade. His landlord is a ready partner in his profits." [7]

"I am impressed by the fact that the popularity of the cry for leasehold reform is greatly due to the general conviction that the shopkeepers and small tradesfolk are systematically despoiled by the landlord whenever a lease falls in. The freeholder or a long-lessee lets a foothold in the business life of London to an industrious and enterprising trader — a butcher, a photographer, a grocer, a printer, a draper, what you will. The working occupier gets a lease for a few years, puts in what needful capital he can raise, spends freely his own time and brains and makes a business, but that business is often wholly and always partially annexed to the spot where it is made. There are not a dozen bakers in London who would not pay a heavy fine rather than move a mile. Therefore, you have him in a trap. Some security you must offer him, or he will not put his money down, but the competition is keen and he will take a wonderfully short tenure. That done, you watch his business with affectionate interest, for you will skim the cream off by and by. Knowing that he cannot leave without a loss, of say,

6 Richard Beynon, "Drapery and Drapers' Accounts," pp. 160–161.
7 Sullivan, "Markets for the People," p. 45.

1,000 pounds, you will fine him 900 pounds for your leave to stay. You first charge him for dilapidation, so called, then you lay on a rent, probably beyond what another man would give you; then you ask a fine, in cash, or in the form of building improvements, remembering all the while that amazing axiom of the law, that whatever of his property he affixes to the soil forthwith belongs to you." [8]

"By the leasehold system the landlord is not content with taking the house that he did not build; he also takes the good will of the trade attached to the house, and, on renewing a lease, extorts a heavy payment for allowing the tenant to continue to enjoy his own business which he has brought to the house under the hard penalty of being turned out of the house altogether. . . . It is also cant to talk about freedom of contracts, for the tenant would be ruined if he did not submit to his landlord's terms." [9]

That rents in the retail business do actually show a tendency to increase, not only absolutely but relatively as well, on passing from poorer to better locations, or for the same location as it becomes more desirable over a period of time, seems to be borne out by such figures as are available on the subject. It is unsafe to form any hard and fast generalization, however, for the reason that so few figures are to be had. Later statistics may show other and different tendencies at work more powerful than these that have been indicated above.

One writer states that the average rent for most small stores is about 2½ per cent of sales, but that in large city stores it reaches 10 per cent.[10] Elsewhere the statement is made that rents average 2 per cent in country stores, 4 per cent in small city stores, and from 4 per cent to 7 per cent

8 B. F. C. Costelloe, a member of the London County Council, quoted in Dawson's "Unearned Increment," p. 40.

9 Dawson, "Unearned Increment," p. 52.

10 *System*, Mar., 1911.

for department stores.[11] In reply to an inquiry upon this point directed to C. C. Parlin,[12] who has made an extensive study of the costs of doing business in retail stores in all of the principal cities of the country, he stated that he found the tendency indicated above to be generally true.

Coming at the same idea in another way, the Harvard Bureau of Business Research states:

"On rather limited data, so that it must be stated tentatively, it yet begins to appear as if the rent item fell off markedly in importance in towns of less than 100,000 population." Elsewhere this report indicates a range in rent "from 1.8 per cent to 14.6 per cent of the net sales of going concerns." [13]

Figures collected by the writer in person from a hundred stores in towns of various sizes in the Middle West indicate no exceptions to the general tendency. For example, a neighborhood grocery store in a Wisconsin city of 30,000 population pays 1½ per cent of its sales for rent, while one of the largest and most prosperous grocery stores in the down town section pays 2 per cent for rent. A dry-goods store a few doors off from the main street of a town of 25,000 population pays 2.3 per cent for rent, while a principal dry-goods store in the town pays 3 per cent. A shoe store in a neighborhood shopping district in one of the large cities of the country pays 2 per cent for rent, while one of the best located shoe stores in the same city pays 6 per cent.

On passing from the best locations in small towns to the best locations in larger cities, the same rule seems to hold. The share of the landlord tends to increase faster than the sales. The payment for rent for a good dry-goods store

11 "How to Run a Store at a Profit," A. W. Shaw Co.

12 Manager Com'l. Research Division. Curtis Pub. Co.

13 Bulletin No. 1, Preliminary Figures on the Retailing of Shoes, May, 1913, p. 11.

in a town of 18,000 is 2 per cent; for the best located store in a city of 25,000 it is 3 per cent; for a well located dry-goods store in a city of 300,000 it is $3\frac{1}{2}$ per cent; and in a city of over a million it is $4\frac{1}{2}$ per cent of sales. A small country town shoe store pays 2 per cent for rent; in a town of 25,000 population, one of the best shoe stores pays 3 per cent; and in a metropolitan center the rent is 6 per cent. These are typical of the figures at hand, and, if not conclusive, are at least suggestive.

In conclusion, rents in the retail business seem to present the following characteristics:

1. The amount of rent paid by a store manager for a retail store depends primarily upon the comparative desirability of the location. Desirability of location means possibility of making profits. The more desirable the location, the higher the rent.

2. The rent tends to increase not only absolutely but relatively to profits on passing from poorer to better locations.

3. The rent tends to increase not only absolutely but relatively to profits on passing from the best locations in smaller towns to the best locations in larger towns.

4. The rent tends to increase not only absolutely but relatively to profits as the desirability of a location increases over a period of time.

5. In the long run the most efficient store managers tend to get possession of the best store locations.

Such questions might very properly arise at this point, as, how high can retail rents go; are there any checks preventing the complete operation of these principles of rent; and can retail rents absorb all pure profits?

In considering how high retail rents can go, one must constantly bear in mind that there is competition of landlords as well as of store managers. The rent for the best

location in any town can go no higher than the point which equalizes the remaining product in the form of profits from that location with the product which may be earned in the next best locations. Rent can absorb a great part of the profits made by retailers of average efficiency, but never all of the profits made by the most efficient. The most efficient man will leave the best location for the next best the moment the landlord raises the rent above the point that leaves the store manager no surplus profit. But as no other manager can pay as much rent, the landlord will soon call him back again. Thus, while rents tend to crowd profits, they can probably never absorb all.

One might assume that long ownership of a single location well managed would finally lead to getting the highest rents. The history of retail districts in cities shows, however, that the point of best locations is never really stationary, and that in the course of a generation it is likely to be several blocks from the original place.

Though merchants may build up trade and good-will for a period of years, items of value that are in turn to a certain extent absorbed in the landlord's rent, general currents in retail trade beyond the control of any merchant finally come and sweep away all these advantages. In scarcely a city in the country does the center of the retail district occupy the same place today that it occupied fifty years ago. Though taking more years to accomplish the changes, the same thing seems to be going on in the older cities of Europe as well. Retail locations have their periods of rise and decline in desirability just as empires have their rise and decline in power. Every change of this kind brings new opportunities to new groups of people in the business field.

There are several checks to the complete and perfect operation of the tendencies of rent that have been enumer-

ated. For one thing, retail profits are hardly ever so certain as have been assumed in the illustrations used in this chapter. Some allowance must always be made for the element of chance that stands out large in the retail business. The profits assumed in the illustrations might materialize one year, and the next year might be represented by a minus quantity, or deficit. Both the store manager and the owner of store property must constantly make estimates of the possible business and profits, but, in practice, these estimates are always subject to qualification. Hence the merchant offers less rent, and the landlord may take less rent, for a time, than would otherwise be necessary or probable if the business were more stable.

Another check to the freer operation of these tendencies is the ignorance of the landlord in many cases regarding what his tenant, the merchant, is really accomplishing with the location. The latter conceals his profits and pleads for the lowest possible terms. In the absence of keen competition he is in many cases able to keep his rent down to a low percentage of sales, simply because the landlord does not know how much the location is worth to him.

Then there are customary rents beyond which landlords find it hard to push the retailers. In some towns $100 per month is the highest customary rent, though on strict economic principles, some locations might pay $110, $125, or even more. The retailers of a town sometimes combine, or come to an understanding, not to pay more than a certain rent. Checks on retail rents such as customs and combinations of these kinds are characteristic of the easy going little country town rather than the brisk, rapidly growing city. In the latter environment custom counts for nothing and combinations are usually easily broken up.

The long time leasing system also acts as a check on the operation of the laws of rent. It prevents the ready adjust-

ment of rent to the actual, present desirability of the location. Under the long term lease, sometimes one party gets the benefit and sometimes the other, depending largely upon whether retail trade currents are coming towards or passing away from the location at the time of the making of the lease and thereafter.

Bargaining is not always carried to the extreme auctioning method indicated. In many cases a merchant makes as good an offer as he can, once and for all, and the landlord takes him at his word, and accepts or rejects as the case may be. Thus errors in market judgment are sometimes made. The rent is sometimes placed higher than it need be. Actual lessors are not always available at the times that leases expire, hence good locations sometimes go begging as it were, because of lack of good merchants in the market seeking for locations.

Many such checks act to prevent the rent tendencies from operating freely. In some cases the checks may be more powerful than the tendencies. The most that can be said until further statistics upon the subject have been gathered is that the resultant of the opposing forces seems to be somewhat in favor of what we have here called the "tendencies of retail rents."

CHAPTER IX

LOCATION AND RENT IN THE RETAIL BUSINESS (Continued)

Factors of Desirability in Location

The value of a retail store location is determined solely by the possibilities it offers of making a profit. The possibilities of making a profit depend upon the possibilities of making sales. There can be no profits without sales, but there can be sales without profits. The sales of some goods, such as class goods, fashion goods, and novelties, yield a high profit in proportion to sales. Other goods, such as staples of everyday use by the masses, generally yield but a low profit in proportion to the sales. Thus small sales with high profits may in some cases be fully as profitable as large sales with low profits. In any case, the profit is the important consideration. A good location is one that permits the retailer to make a good profit either from small sales and large margins, or from larger sales, with unusually smaller margins of profit.

The customary method of expressing the rent that a store pays as a percentage of the sales of the store, is, therefore, defective as a basis of comparison with other stores, unless one also knows what gross profit is made on the sales. Of the two items, profit is by far the more important with which to compare the outlay for rent.

The possibility of making sales depends upon accessibility to the purchasing public. The greater the number of people, other things being equal, who live near, who come to,

or who pass by a certain location, the more valuable that location is. Every retailer who knows his business recognizes this. The president of the Woolworth five and ten cent stores company expressed this idea exactly when he said, "I set my traps where the mice are thickest." Store managers, particularly the managers of certain chain-store systems, on seeking out new locations for stores, first determine the number of people who pass the proposed locations, actually counting them for certain periods of time, often for weeks, so as to get accurate data, and then giving their preference to those places — other things being equal — that show the highest counts.

The merchant who locates at the point that is easiest for customers to get to, that requires the least possible effort from them in every possible way, has the best chance to succeed. This well known fact accounts for the location of the crossroads store in the country, the corner store in the village, the neighborhood store in the residence section of the city, and the "downtown" or "uptown" store in the center of the city.

The neighborhood store aims to get as close to the homes of the prospective customers as possible, so that it will be easy for them to come to the store or to send for goods by means of children or servants, and so that deliveries can be made quickly. But neighborhood stores must as a rule content themselves with handling only such lines of goods as are of daily necessity in the surrounding homes — such as groceries, meats, baked goods, and dairy products. Another limitation on a neighborhood store that is clearly evident, is that its area of trade is limited. Hardly ever does trade for such a store come further than four or five blocks. Beyond this radius the influence of competing neighborhood stores, or the attraction of the stores in the center of the city overpower the trade possibilities of the neighborhood

stores. There are here and there neighborhood store managers who are able to push their trade beyond these natural limits, but such cases are exceptional. The amount of neighborhood trade depends, therefore, upon the population of the immediate vicinity, and rent for such locations is similarly determined.

Stores in rich, fashionable neighborhoods are able to command higher profits in proportion to sales than stores in poorer neighborhoods, and the proportion of rent to sales varies in the same way. A grocery store in one of the best residence districts of a Middle-Western city of 350,000 people, pays a rent of nearly 3 per cent on its sales, while another neighborhood grocery in another section of the same city occupied by wage earners, a store doing approximately the same volume of business as the other, pays slightly less than 2 per cent of its sales for rent. While the sales are about the same in both cases, the first merchant is slightly better off. The lines of goods he handles make a much better profit per dollar of sales than do those handled by the second store. The profits from his location are considerably higher, hence he has to pay a higher percentage for rent, but still makes more money than the second.

The centrally located store, as the term expresses, is located where the most people naturally come together, whether it be at a country crossroads, the place of intersection of principal streets in a city, or at the intersection of street car or other transportation lines. It is a matter of dispute as to whether a retail store away from the traveled streets can be conducted so well as to draw a profitable and permanent trade to itself, but it is a well recognized fact that most merchants do not court the difficulties of such an attempt. The commonest struggle among retailers is that for the location which is passed by the greatest number of people.

In considering the value of a location for a retail store,

however, something more than the number of passers-by must be taken into account. The purchasing power and the probable proportion of customers from the passing crowds are most important considerations. Hence in analyzing a location for a retail store, one must determine what economic classes are represented, to what extent in each case, and what their buying habits are. A knowledge of the average wealth might be misleading, especially if there are several classes in a community. Most of the passers-by might come from families whose total incomes were under $800 per year, while, if a millionaire came by occasionally, the average income might seem to be above $1,000. What the man who wishes to start a retail store wants to know is how many out of this passing crowd spend $10 for their suits of clothes, how many $15, how many $20, how many $25, and how many above that; or how many of the women passing spend less than $10 per year for millinery, how many between $10 and $20, how many between $20 and $50; or how many of the men who pass smoke 5-cent cigars and how many 10-cent cigars, and to what extent they are smokers. The average of wealth is a poor guide to such facts. Specific amounts expended by specific numbers of people who pass by are much more desirable facts.

Another classification of passers-by that will prove helpful in determining an estimate of the possibilities of a location is based on the purpose or the reason for their passing by. Some are going to or coming from their place of work or business. Others are out for pleasure. Others are out to buy, while others are out merely to look.

Passers-by going to or returning from work or business are, as a rule, not good customers for anything, with the one exception of the higher-salaried and income-receiving classes who patronize news-stands, boot blacks, barber shops,

cigar stores, and, to some extent, haberdasheries, on their way to and from business. Large crowds of factory employees, men and women, may pass a store day after day for years on their way to and from work and never patronize it. On their way to work, there is usually little time left before the whistle blows, hence there is little or no chance to look at goods. On their way from work, they are usually tired and hungry and not in the mood for shopping. Many factory workers, particularly of the younger generation, do not care to trade in a store or in a part of town where their occupation is known or where any reference may be made to their daily labor. The "down town" retail district is much more likely to draw their trade. A very large part of the goods of all kinds needed by the family from which the factory worker comes is purchased by the wife or mother, and thus the trade goes to the locations that are the most convenient or attractive for her. The only classes of retail business that seem to do well on the custom of working people, going to or coming from work, are, too often, the saloons, and the cheaper grade of restaurants and lunch counters.

Pleasure seekers are usually better buyers than the army of workers passing to or from work. Refreshments, flowers, sweets, souvenirs, and trinkets are some of the objects that may appeal to their fancies. Such trade is strictly chance custom. It is entirely dependent upon the time of year, the occasion, and the weather. A fine summer day brings out a crowd of people along the fashionable streets. A converging point of such thoroughfares makes a splendid location for a refreshment stand. On stormy days the same location may be worth nothing. The street leading out to the fair grounds when the fair is in session, and the route to the circus ground when circus is in town, are dotted with refreshment booths, the best located doing a good business

and finding it profitable to pay a high rental for the day for the location which would be worthless on the morrow for the same purpose.

The people who come out for the express purpose of shopping and buying are for the majority of retail businesses by far the most important classes. The places to which these people go are the places that are valuable for retail purposes. Shoppers and buyers go where they think they can see and get what will give them the most satisfaction. Except for such necessities as common foods, meats, and so on, the place to buy, according to the opinion of the shoppers, is nearly always in the heart of the town. This may be the location of the village corner store, the big stores at the intersection of the principal streets in the city, or the place where the great public markets are located. Here, in the mind of the average customer, is offered the biggest variety, the best qualities, the best facilities for examination, and the biggest bargains. Because others come here to purchase goods, this is assumed to be the best place. In any case, this central point is the most valuable retail store location. Retailers who cannot get this best location struggle to get as near to it as possible, and rents are largely bargained for on the basis of distance from this central market point. Thus the retail store group spreads out from the center, especially along the streets most frequented or best traveled.

Stores tend to cluster around this best location in the city and to form what is known as the retail district. The stores established are not always competitors. Almost as frequently they arrange themselves into complementary groups co-operating with each other in the attraction of custom and in the making of sales. Thus, stores dealing in men's goods are sometimes found on one side of the street, while stores dealing in women's goods are located on the

other side. Dry-goods, millinery, jewelry, shoe, and book stores are likely to be found close together, if not entirely absorbed under one roof in the form of a department store. Grocery stores, meat markets, and bakeries tend to form another grouping, each co-operating in a way with the other kinds of stores in the group. Confectioneries, soda and ice cream parlors, florists' shops, and theatres form another natural grouping. The saloon, billiard hall, tobacco and news-stand, and the cheaper grade of restaurants form still another.

But stores that sell exactly the same kinds of goods, and that are clearly competitive, do not necessarily merely divide the business that was formerly done by one store. When there is known to be competition this in itself attracts trade, and people come from farther away. New wants are developed that did not exist before. Thus the result is an increase in the total amount of trade. Cases are known where the increase was so great as to give to each of the competitors more business than had been enjoyed by the single merchant before. This, of course, is exceptional.

The tendency of stores to cluster closely together is not only profitable to the merchants themselves, but is a convenience to the customers. In fact, the convenience to the customer is the chief cause for the close grouping. Stores handling the same or similar lines and stores handling different lines of goods, all close together, save the customer's time. This is, probably, the greatest argument for the department store, which assembles many lines under one and the same roof.

Most customers, particularly women, like to compare values in different stores before purchasing. An investigator for a large publishing house [1] has stated that "before

[1] C. C. Parlin, Manager of Research Division, Curtis Publishing Co., in an address before the Advertisers' Convention, Cincinnati, Sept. 24, 1913.

she buys, a woman usually visits three stores to compare goods. The man, who is distinctly 'anti-shop' in his inclinations, on the contrary, visits but one." Competing stores, located close together, and dealing in goods women buy, permit comparisons to be made easily.

Another advantage of locating competing stores close together is the possibility of drawing trade from customers who had planned on going directly to some one of the competitors. Such customers may frequently be induced to enter other stores by attractive window displays, and whether they do or do not buy the goods that they had come out to buy from the competitor, perhaps, seeing the displays, they will buy other goods that they had not thought of before. In this way even competitors help each other to a certain extent.

A location next to a large, old, well advertised, well known, and popular store is always valuable for another store dealing either in complementary or competitive lines of goods. A Middle-West jobbing house that has a service department to aid those who wish to establish variety goods stores frequently advises the locating of the store — so it is stated — next door, if possible, to a syndicate five and ten cent store, if there happens to be one in the town. Out of the crowds who go to the latter, many can be attracted into the independent variety goods store. The advertising value of the big store is shared to a certain extent by the smaller and newer store next door.

In cities or towns having a public market that amounts to anything, stores frequently group themselves about the market place. It has been remarked by several writers that the establishment of city markets in this country is usually opposed by the city merchants, particularly those who deal in the goods likely to be bought and sold on the public market. There is probably reason for this, but after the

city's merchandising has once readjusted itself to the market, its removal is generally strongly opposed by the merchants. The removal of the city market has in many cases ruined whole retail districts which had been built up around and near the old market place. This merely exemplifies the principle that retail stores must go to the people and that the people are not likely to go out of their way to find the stores.

We have so far considered the possibilities of a retail store location from the standpoint of the number of passers-by, the buying power represented, and the purposes that bring them by. There is another factor having an influence on the value of a location and that is the buying habits of the possible customers. Not all people within even the same economic classes, or those having the same incomes, expend their money in the same way. In nothing is this more clearly exemplified than in lines commonly called luxuries. Some people spend their money freely for such items, while others with the same income do so sparingly. The average consumption of such commodities varies greatly from one community to another. According to George J. Whelan, President of the United Cigar Stores Company, the expenditure for cigars is as follows in the principal cities:

Annual Cigar Consumption in American Cities [2]

New York	$1.74 per capita
Chicago	.63 per capita
St. Louis	1.21 per capita
Rochester	.97 per capita
Spokane	.60 per capita
San Francisco	4.06 per capita
Milwaukee	.22 per capita
Atlantic City	2.55 per capita

[2] From *Printers' Ink*, quoted in Cherington's "Advertising as a Business Force," p. 187.

Other things being equal, the value of a location for a cigar store passed by a certain number of people can not be as high in Milwaukee as a similar location passed by about the same number in San Francisco.

Such differences in tastes and habits are, no doubt, just as important in many other lines. In this connection it may be noted that tastes and habits are neither stationary nor permanent. What is true for one year may not be true for the next. In so far as such changes take place, they are reflected in the retail business and thence back to the location of the retail store that is most conveniently located to serve the demands.

Any influence on the course of people's movements affects the value of a retail location. Certain streets are more popular than others, and one side of the street is generally more traveled than the other, with a consequent difference in value for retail purposes. One must assume that there are definite reasons for this, and upon the basis of these reasons the retailer must select his location or make the best use of the one already selected.

Sunlight and temperature tend to make one side of the street more crowded than the other. In warm climates and in warm weather, people seek the shady side. In colder climates, and in the winter time, they walk the sunny sides. Which side of the street is most popular must depend therefore upon what time of the day shoppers come out in greatest numbers. In most stores the heaviest trade occurs during the afternoon. The richer classes in the larger cities do their shopping generally between 11 A. M. and 3 P. M. For most parts of this country the sides of the street that are shady during the afternoon, namely the south and the west sides, are the ones which people prefer to take. The exceptions are some of the cities in the most northern tier of states, where the most popular sides of the

street are the north and east sides. This seems to be true more especially for the winter, late fall, and early spring months.

The shady side of the street has another advantage. Because of the reflection of softer lights from the plate glass and show-window back-grounds on this side, the window displays appear to better advantage, and, therefore, draw more attention. Also a greater variety of goods can be shown, and much better effects can be obtained on the shady side of the street than on the sunny side, because of less danger to the goods themselves from the effects of the sun. Goods of delicate shades generally fade easily and need protection from the sun's direct rays. In order to display such goods on the sunny side, awnings are necessary, but awnings interfere with the widest and best use of the front of the building and windows, hence may be considered in the light of necessary evils only.

In New York City, for example, the west side of Broadway and the south side of Fourteenth and Twenty-third streets and other wide streets are worth much more than the opposite side. On the average the rental value of the favorite locations is about double those of ordinary locations in this vicinity. There are exceptions, however. "A Wanamaker can pull trade anywhere, but if Macy should change places with Wanamaker, history would record a very different story of the retail dry-goods trade of New York." [3]

R. M. Hurd, in his "Principles of City Land Values" states that the west side of north and south streets and the south side of east and west streets is generally worth from 20 per cent to 40 per cent more than the opposite sides, and in some cases the difference in value may run as high as 100 per cent.

[3] *Dry Goods,* Dec., 1911.

In some places there are generally prevailing winds that strike certain locations or one side of certain streets in a more disagreeable way than the other side, causing values to be less on the exposed side. Dusty and windy locations are never desirable if they can be avoided.

If a town is built on a side hill, the upper side of the street is nearly always preferable to the lower. There seems to be a sort of inherent tendency among human beings, as among goats, to get up on the upper side of things. The reason may be that the upper side gives a better view, or it may be that it is less laborious to go from the upper side to the lower side, if necessary to cross the street. Dust and refuse tend to gather on the lower side of the street with the result that the upper side is generally cleaner. Whatever the cause, the fact remains that the upper side seems to be favored in most cases. This tendency may be remedied to a certain extent, but not entirely, by having the streets graded so as to put the walks on both sides on the same level.

Most merchants of many years' experience know of "hoodoo" locations, places which would seem to be favorable for a retail store, but in which every merchant who has tried them has failed. It is not easy to account for these things. For one thing, a succession of failures hurts a location for future trade. Not only do careful merchants avoid such places, but customers stay away also. It takes more than average ability to turn the tide towards success in some such places. There is an old adage among merchants to the effect that it is easier to start a new business than it is to raise a dead one.

Often the only explanation for the value of a side of a street for business purposes is popular habit. People continue to take one side rather than the other because some time in the past they found it best to do so. After the rea-

son for so doing passed away, the practice continued as a habit.

Speaking of the peculiarities of the habit of crowds, R. A. Bruce, general manager of the Beck Shoe Store Company of New York, operating a chain of New York shoe stores, says:

"Walk up Broadway from 23rd street to 50th. The crowd seems to be about the same on both sidewalks. There are stores on both sides too, prosperous stores. It would seem to be a matter of no consequence which you located a shoe store on. Yet the west side is good for shoes and the east side is bad. That holds good up as far as 40th street and then it suddenly shifts. From there up to 50th the east side of the street is a little better than the other. Why? I can't tell you, but it is true."

Corner lots are more valuable than inner lots for the very reason that more people pass them. The corner of two streets, both equally well frequented, is passed by twice as many people as any inside lot on either street. Again, the corner is a kind of stopping place or pausing point for people who are uncertain as to where they are to go. Heavy traffic passing may cause them to stop. The moment's pause may be sufficient to cause the passer-by to notice the corner store window display and to be drawn in to examine goods and to buy. In bad weather, corner locations are valuable because people drop in while waiting for cars, in order to get warm, or to await the passing of a shower, etc. The corner is frequently the designated meeting place for many people. For these reasons the corner is of considerably greater value than the inside lot, and especially for businesses depending upon pick-up trade or chance custom, such as cigar stores, drug stores, book stores, news stores, shops dealing in curios, souvenirs, and novelties of any kind. A well-known manager of a chain of shoe stores

estimates that for the shoe business the corner is worth at least 20 per cent more than an inside location.[4] Some tax and assessment experts assert that the corner lot is worth 50 per cent more than inside lots, and that the corner influence extends at least 100 feet down each street from the corner in a diminishing ratio. Newark, New Jersey, for example, assesses all business corner lots 50 per cent higher than inside lots.[5]

There is a difference in value in the corner locations that corresponds to the difference found between opposite sides of the street, and for similar reasons. In localities where the south and west sides of the streets are most popular, the southwest corner is most valuable, the southeast corner comes next, the northwest corner next, and the northeast corner last. In localities where the sunny sides are preferred, these values would be reversed.

The presence of near-by disagreeable features of any kind reduces the value of a location for store purposes. Smoke, dust, disagreeable odors, and noise from near-by shops or factories, hurt. A location that is darkened by shadows of large buildings is also less valuable. All of these factors depreciating the value of the location must be made up, if at all, by using more advertising, special store fronts, unusual lighting effects, or striking window displays.

Proximity to stables, saloons, hospitals or schools generally cuts down retail trade, and hence affects location value adversely. Women dislike going near saloons and stables. The hospital always suggests unpleasant things to the mind of the average person, and location near a school is likely to be affected by the noise of children playing.

If the sidewalk is good on one side of a street and poor on the other, or if the sidewalk is level on one side and

[4] *Printers' Ink,* Aug. 7, 1913.

[5] "Real Estate and Its Taxation in Philadelphia," a pamphlet published by the City of Philadelphia.

uneven on the other, people will take the better walks in the large majority of cases. Steps up or down from the sidewalk to a store lessen the value of the location. A rickety sidewalk has the effect of driving customers to the other side. A sidewalk kept clean, free from snow, ice, slush, and standing pools after rains is always preferred.

Old and worn-out structures near by also hurt a retail location, and it is commonly asserted that an empty building next door to your store is your worst competitor. The best location is the one that looks the most prosperous. Empty and old buildings indicate favor passed away. The store manager who finds that the building next to his is vacated, in many cases, either tries to rent it for his own use, or attempts to get a tenant for the property who will sell non-competitive or complementary lines of goods.

Other things being equal, the store easiest for customers to reach has the best location. The places where the cars stop, where the farmers tie their teams when coming to town, and where the street has the best pavement or road bed, are the most valuable. Street cars and telephones tend to centralize the business of a community into the central section of town. This results in an increase in the value of land in this section, and a decrease in land values in other parts of town farther out, for retail store purposes. Patronage given distant towns, the development of parcels post, and the use of the automobile, and even to a certain extent the development of better roads for wagons and buggies have helped to concentrate trade in the retail districts of the larger cities. Locations in such places have seemingly grown more valuable with nearly every invention that has been made in the way of improving the means of transportation and communication.

Many other factors of varying degrees of importance influence the value of retail store location, but all depend for

their influence upon the principle laid down at the beginning of this chapter, namely, that the value of a site depends entirely upon its possibilities for making profits. For the opportunity to use the site, the tenant pays his rent.

CHAPTER X

LOCATION AND RENT IN THE RETAIL BUSINESS (Continued)

Intensive Use of Location

A good location for a retail store simply offers the possibility of getting a good profitable trade, provided the manager of the store "hustles" for it. A good location differs from a poor location only in the fact that the limits of trade of the latter are more quickly reached. The former will bear intensive cultivation, the latter will not. The rent is the payment for the opportunity to cultivate and to harvest the product, whatever that may amount to, of the given location.

When the retail store manager is confronted by a demand for more rent, it means that he must in turn make more profit. Ordinarily this means that he must make more sales, and turn his stock more rapidly. In order to accomplish this, factors other than location must be right. The building must be appropriate for the business that is to be transacted; perhaps more than one floor or story should be used; at any rate, the floor space must be employed as effectively as possible. Space may perhaps be economized by the use of special fixtures and equipment. Something can often be done to provide for distributing and circulating the incoming crowds of people to all parts of the store. In addition to these things, trade must be attracted to the store by means of improved window displays, advertising of various kinds, and by special service to the people who come to

the store. Finally, the salespeople must do their work in an efficient manner, and this means that they must be trained. All sources of losses to the store must be checked and stopped. Through such methods as these the store managers occupying the highest priced locations are able to make good; and it is by study of such methods as these that retail merchandising can be improved in all classes of locations.

The first step in putting a good location to intensive use is the erection of a suitable building. In most cases, particularly in this country, such work is performed by the owner of the site. This fact tends to prevent the highest efficiency in this direction, for the reason that, unless the owner of the site is himself a merchant, or, unless he turns over all of the planning of the building to someone who is a skilful merchant, several architectural features desirable from the standpoint of merchandising are likely to be omitted. Each class and grade of merchandising establishment demands a store built for the purpose. Store architecture in this country is still in its infancy. Only in the case of certain large types of institutions, such as department stores, can it be said that a true type of merchandising building has been developed by American architects. Hence the average architect is by no means to be trusted to plan a structure perfect for store purposes.

The building should be constructed to harmonize with the ideals of its particular line of business and the particular kind of trade that is desired. It should combine beauty with the highest type of utility and efficiency. Ordinarily it should convey the impressions of solidity, spaciousness, lightness, and airiness, the things that fit in with the present popular ideas of art and sanitation. It needs distinctiveness to help attract attention. Store fronts, like millinery, are subject to fashion, hence the structure of the building should

be such as to permit of easy and economical changes in this respect. Further, it needs to be built so as to reduce fire risks to the minimum from whatever cause. Thus the building should combine both the useful and the beautiful.

If the business is a good one, a merchant may feel the necessity for more space than that offered by the main floor. If the additional space cannot be obtained economically on either side, he must use space either below or above the ground floor.

The use of basements as adjuncts to main floor stores has rapidly increased during the last few years. The older plan was to use the basement as a storage place for goods, but this is giving way very generally in the larger stores to the "bargain basement," the "economy basement," or the "subway store" idea. So far has this gone that there is hardly a large department store of any consequence but has at least one basement in use for displaying and selling goods, and a few of the very largest and most modern stores have two basements, one under the other, thus utilizing for merchandising purposes a space upwards of 25 feet deep below the street level.

There has always been some difficulty in getting people to go to the basement for goods, hence merchants commonly use "bargains" or other inducements to draw them there. Frequently the entrance to the basement from the first floor is placed at a point of considerable distance from the main building entrances, making it necessary for customers to cross the main floor, and, therefore, to pass by much of the main floor goods displays before getting to the place where the tempting bargains are to be had. In other cases people are attracted to basement departments by direct entrances from the street. Modern stores must be planned to make the sales of goods easy, and to increase the sales wherever possible in such ways as these.

Upper stories offer the same objection as the basement, namely the difficulty of getting customers to go there. Good comfortable stairways, capacious elevators, and, more recently the use of escalators have been introduced to make travel from the ground floor to other parts of the store easy and attractive to customers.

As the height from the ground floor increases, the difficulty of getting customers also increases. A two story store with a basement may be able to get along with stairways only, but this seems to be about the limit for foot travel. The use of elevators even in this case adds to the number of customers who go beyond the first floor. Beyond the second floor, however, either elevators or escalators seem to be absolutely necessary in most towns, and for the second, third, and fourth floors in large city stores the escalator seems to do better than the elevator. For floors above the fourth, the elevators serve the best.[1] An investigation on the comparative merits of escalators and elevators, as reported by a concern that makes and sells both classes of apparatus,[2] showed that in a certain store having escalators, 53 per cent of the people who entered the store circulated above the ground floor, while in other stores served only by stairways and elevators, only 28 per cent traveled above the ground floor.

The value of a floor in a building is not entirely dependent upon the number of people who come to it. The ground floor is likely to have a larger proportion of shoppers, or, rather, sight-seers, than any other floor. While the store must aim to interest and to sell goods to as many of such persons as possible, still a large number of these do not buy. Floors other than the ground floor are likely to be visited by a larger proportion of bona fide customers

1 Ring, R. S., "The Escalator for Department Stores," *Archit. & Bldg.*, 44:509.
2 Otis Elevator Company.

for merchandise. The average person who takes the trouble to come to a third or fifth floor is likely to have some definite want in mind that the store has a good chance to satisfy. But in spite of these qualifications, the ground floor is far more valuable than any other.

The apportionment of the total rent to the various floors in actual practice depends largely upon circumstances, but in all cases that the writer has observed, a much larger proportion has been charged to the first floor than to any other. The following figures obtained in part from the service department of the *Dry Goods Economist,* and in part from figures given to the writer by executives of two of the largest retail concerns in the country, are probably typical.

TABLE SHOWING APPORTIONMENT OF RENT OF BUILDING TO THE VARIOUS FLOORS[3]

STORE NO.	1	2	3	4	5	6	7	8	9	10
Basement	35	..	25	..	15	10	10	15	12½	15
Main Floor	65	65	50	60	45	45	50	40	35	35
Second Floor	..	35	25	30	25	25	20	20	20	20
Third Floor	..	..	..	10	15	10	10	15	15	10
Fourth Floor	..	..	..	..	..	10	10	10	10	10
Fifth Floor	..	..	..	..	..	..	..	..	7½	5
Sixth Floor	..	..	..	..	..	..	..	..	..	5

As indicated by the table, the rental value of stories above the first decreases rapidly for retail purposes. This brings us to a question of interest in the larger cities, namely, how high up will retail customers go. A recent writer[4] has stated that nine stories above the ground with two basements beneath probably represents the profitable limits. Other stores have gone somewhat higher but with what success is not known. This problem is of interest, of course, only where rents are very high, and additional space very

3 The total number of floors in each store is shown by number of percentages given. The first store consists of ground floor and basement, the second of first and second floors, and so on.

4 *Architectural Record,* 12:287.

difficult to get. Two stories and a basement are probably the profitable limits for most stores in towns under 25,000 population; and in larger cities under most conditions, five or six stories probably represent working limits. The difficulties of getting large numbers of customers up and down quickly are too great for further upward expansion. Except where space is very valuable, and crowds are great, the expense of running elevators, and the rent of the space occupied by elevators and stairways, more than counterbalance the earnings made by the use of upper floors.

Additional floor space is frequently obtained by the expanding concern by building a balcony or mezzanine floor part way around the main floor room. This can be done only when the ceiling is high enough. Modern store architecture nearly always provides such height for the first floor, and the mezzanine floor is often a part of the original construction. Some stores use this sort of structure with great advantage, generally for goods that might otherwise be displayed and sold either on the second floor, or in the basement, as, for instance, bargains, or else those goods that people determine in advance that they need and come to the store for the express purpose of buying, such as furniture, stoves, rugs, carpets, curtains, etc.

Many small stores find the use of balconies both convenient and profitable, but mistakes in their structure are so often made that their full value is seldom realized. One error frequently made in building a balcony is to leave it with an unfinished appearance, just as if it were so much staging. To some customers it hardly looks safe to walk on. It lacks the appearance of stability and solidity. Other shortcomings noted frequently include — lack of provision for proper light, poor ventilation, and poor or uncomfortable stairways. Where these evils are remedied, the balcony has proved a money making addition to many stores.

Whatever the demands may be for more floor space, there is present always the problem of using in an effective way space already controlled. High rents force this problem to the front. Store arrangement is a science in itself, a science that is only imperfectly understood by most merchants. The arrangement of the store is often the factor that makes or breaks its success. It calls for consideration of a multitude of details among which only a few of the most important can be mentioned. Provision must be made for receiving, storing, and handling the goods; the machinery, engines, and heating plant must be located properly; and precautions against fire must be taken at every step. The heating, and in larger stores, the cooling plants should receive most careful attention. Maintaining a uniformly comfortable temperature, regardless of weather conditions, is essential. Provision must be made also for proper ventilation of all parts of the store in order to make it pleasant for customers and a good workroom for salespeople. Light of the right amount and kind should be provided for each department of goods. This means brilliant light for such departments as jewelry, glass-ware, and china-ware, and subdued lights for such departments as furniture, and so on. Provision must also be made for easy and thorough cleaning of all parts of the store. Employees must be accommodated with locker space, lunch room, rest rooms, toilet rooms, and often with recreation space. The store must provide ample room for customers, spacious aisles, large stairways and commodious elevators. The entrances must be made large enough to let crowds in and out easily. The store should be arranged so as to make it very easy for customers to get from one point to another in the store. Accommodations for customers, such as waiting rooms, reading and writing rooms, telephone booths, and toilets must be provided. Places and fixtures for displaying and selling mer-

chandise, and for making change, wrapping parcels, and so forth must receive prime consideration. Space is required for assembling the goods that are to be delivered. The disposal of refuse and waste makes its demand.

When we come to the goods, the departments must be located so as to draw the most trade. The goods that sell themselves must be located where they will help to attract attention to other goods. Goods not in customers' minds must be located where they can be seen. The merchandise must be arranged in groups that permit of making a sale of more than one article. Goods that go together in actual use are, therefore, generally grouped together. The man who comes in to buy a collar must see displays of neckwear, shirts, handkerchiefs, and gloves, and these departments should lead easily to hats, clothing, shoes, and so on. If the store is small and the number of people who come in comparatively great, the departments must be so arranged as to scatter the crowd equally over all parts of the store by placing departments making the most numerous sales as widely apart from each other as possible.

The so-called "non-productive" departments of the store, such as the offices and places for keeping records and accounts, must be located in odd spaces not taking up room valuable for sales purposes. This may mean placing them in the back part of the store, on a balcony up out of the way, or on an upper floor where space is, as we have seen, much less valuable for selling work.

Storage place for the surplus stocks of goods is always a problem wherever rents are high. Special equipments are sometimes built permitting a maximum of storage under counters and on shelves. For the bulk of the surplus stock, an upper floor is the usual solution, with an occasional use of a storage building in a low rent part of the town. The distant warehouse may have the advantage of low rent, but

it also has the disadvantage of high expense in transferring goods quickly to the main store. All of these matters must be considered.

If the profits of the store depend upon quick sales and large volume, it is clear that everything should be done to handle crowds of people and supply their demands as adequately and as quickly as possible. Prospective customers in such stores must be helped by the arrangement of the store and by the displays as well as by salespeople. Open counters, easily read price tickets, printed statements about the goods, and similar devices assist in this direction. The making of change and the wrapping of parcels should be reduced to such system as will save every possible second of time.[5] Salespeople need to show the goods in the quickest possible ways compatible with good salesmanship, and to be prepared to tell in short, pithy, clear-cut sentences the things that customers are likely to want to know about the goods. Above all, they need deft hands, quick eyes, ready minds, and unfailing patience and good-will for every individual in the passing throng.

In addition to all these problems of arrangement and salesmanship and of even greater importance, is the problem of making the store attractive in all its details. In this respect a store differs from a manufacturing plant. The latter may be planned solely in the interests of efficiency of production, but the store must be planned to please customers as well as to facilitate the handling of goods.

A great deal of attention needs to be given in arranging the store display so as to make it most effective. Goods must be placed where they can be seen. The principle is that the display of merchandise should fall largely within the average line of vision. Experiments need to be performed to determine just what this is, but it may be safely

5 See Appendix VI, "Methods of Handling Cash, Credits and Sold Goods."

stated here that most people on passing through a store notice goods only when they are located more than two feet and less than seven feet above the floor. This means that the display must be planned within this line or belt of vision five feet wide. Display above or below these limits seems either to remain unnoticed or to confuse the customer. As a rule, whatever is done above and below these limits, must be for purely decorative purposes, or to serve as a background for the regular goods that are displayed within the line of vision.

Within this line of vision there are possibilities for great art in arranging the display of goods. For example, one may seek to get the colors of the goods into appealing relationships, to get the forms of the goods into harmonious groups, and to get an effect that is not only pleasing to the eye but attractive to the customer's pocketbook. The one who arranges the store's displays has the possibility of exercising talent similar to that of a painter or sculptor, but his combinations must differ from the picture or sculptured group in this respect, that the details rather than the ensemble must stand out clearly to catch the customer's attention. The art is introduced to set off the goods effectively so that they may appeal to purchasers and be sold. Order, symmetry, harmony, and other fundamental principles of art are essential to good store display, but the art must be for business' sake. Everything beyond the direct line of vision in a store is to the customer what the frame and the background of a painting are to the painter and to the one who looks at the painting. This frame or background needs to be in keeping with the central object, harmonious yet subdued, not attractive in itself, but helping to make the goods displayed as attractive as their true natures will permit.

Much valuable space in a store can be saved in many cases by using standard sizes in all equipment, such as cases, cab-

inets, and cartons for the goods, counters and shelves of the right width and height, the right width of aisles for customers on one side and for clerks on the other side. Common obstructions such as pillars, angles in the walls, stairways and so on, present difficult problems in store planning that must be solved according to the best judgment of the manager.

Recently much has been done in the way of devising fixtures that economize space. The portable and sectional types of store apparatus and equipment are aimed, partly at least, to aid in this direction. Special cabinets have been devised to hold a maximum amount of goods in a minimum amount of space for such merchandise as gloves, patterns, laces, embroideries, trimmings, hosiery, shoes, hats, and clothing of all kinds. Stands and frames using a comparatively small amount of floor space have been devised to hold stocks of rugs, curtains, pictures, picture frames, tools, oilcloths, garments, and many other things. Shelving in a modern store is built so as to waste no space. The distance between shelves corresponds exactly to the height of the cartons, packages, cans, or other forms in which goods are contained. The shelving itself is made of no thicker material than is necessary to support the burden. Upright supports of the shelves are arranged in such a way as to take up very little space. Other fixtures are similarly planned. But as noted already, every detail is planned with its artistic, as well as its economic possibilities in view. Where the two conflict seriously, the economic must give way in part at least to the artistic. The walls and space beneath the floors is used for heating flues, air shafts, as well as electric conduits. A bright country storekeeper, who must use a stove to heat his store, runs the smoke pipe directly down through the floor and underneath it until it reaches the wall. Here

it is allowed to rise, and the draught seems to be perfectly satisfactory. In this way he has eliminated the unsightly stove pipe and saved space. Pneumatic tubes, cash and bundle carriers, wiring, and other devices are not permitted to take up too much valuable selling space.

A virtual saving in space is accomplished by careful stock keeping and buying methods. The quantity of each article kept on hand is reduced to a minimum, thus saving shelf or storage room, and the variety is increased by the addition of other desirable lines. This involves buying often, perhaps daily, and a careful watching of the state of the stock so as to prevent running out, but it economizes space.

Of the methods used in attracting trade we can say but little here. The statement is sometimes made that less money need be expended for advertising in a good location than in a poor one. This is probably true if one seeks to get the same volume of business in both cases. If it is necessary to expend a certain sum of money for publicity to get a certain amount of business in a poor location, it is clear that the same volume can be obtained in a better location with a smaller expenditure for advertising. This does not mean that merchants spend less for advertising in the better locations. The reasons for advertising are as strong in the better location as they are in the poorer, the object in each case being to increase to the maximum the volume of sales. Hence one does not ordinarily find a diminution of advertising outlay, or even the percentage of advertising to sales decreasing on passing from poorer to better locations. The principle governing advertising as well as the use of any other factor is its possibility of bringing in a return more than equal to the expenditure or outlay. It is entirely possible that in a great number of cases, a larger proportion of advertising expense will be found profitable in a good than

in a poor location. In the poor location 2 per cent of sales may be found the profitable limit, while 4 per cent of sales may be nearer the limit in the better locations. This is a matter upon which no rule can be given. Each manager must work out the possibilities of his own business and the means of promoting it.

In recent years a great deal of progress has been made in this country in the matter of window displays. Frequently increases in business are directly traceable to the introduction of better store fronts, show windows, and better window trimming. The tendency seems to be to use for display purposes every available inch of frontage. In some cases this display space is increased by recessing the front, building it in the form of a vestibule or arcade, and by constructing island display cases. Much of this work done by modern stores, particularly in the larger cities, is costing a great deal of money, but it is held by all that such expenditures are well worth while. The show window depends for its value upon the number of people who pass by, but there is hardly a town so small, or crossroads store so insignificant, as to make unnecessary or valueless the trimming of windows.

Some idea of the value of show windows may be gained from the fact that a Chicago department store having twenty-one windows charges its window trimming department nearly $500.00 per day, distributed as follows:

2 Island windows	at	$100.00	per day
2 Windows	"	20.00	per day
8 Windows	"	16.00	per day
2 Windows	"	15.00	per day
5 Windows	"	10.00	per day
1 Window	"	9.50	per day
1 Window	"	5.00	per day

These amounts are in turn charged to the departments of the store using the respective windows.[6] A large department store in Boston charges its fifty windows the sum of $306.00 per day.[7] These sums of money represent the windows' burden. They must earn at least this much for the store.

A large department store in Chicago is reported to expend over $150,000 per year in the trimming of its windows. Six hundred Chicago druggists outside of the loop district make a charge of from $4 to $15 per window per week for the privilege of displaying patent and proprietary goods. Druggists and others within the loop district get as high as $100 per week from demonstrators who use this means of attracting attention to their goods. Figures for the loop district of Chicago are, however, abnormal and in no way comparable with average store conditions. The figures of the Chicago druggists outside the loop come nearer representing average values in most towns of 10,000 population and up. In towns smaller than this the values of the show windows are somewhat less. A recent statement by one who has had opportunities for wide observation, is that the average value of display windows the country over is not far from $10 per week.[8]

The front part of the store is the most valuable in all ordinary cases. The window space ranks first and highest, the departments nearest the entrance come second, and so on back. This is true largely because it is so difficult to get customers who come to the store to circulate far beyond the entrance. A manager of a department store has informed the writer that nearly half of the people who enter his store never go beyond a radius of 50 feet from the main

6 The figures are for the Chas. A. Stevens Store, and are taken from the *Merchants' Record and Show Window,* April, 1915.

7 Wm. Filene's Sons Company, Boston. Figures given in *Dry Goods Economist,* May 24, 1913.

8 C. W. Hurd in *Printers' Ink,* Aug. 31, 1911.

entrance, and this in spite of the fact that he has arranged his departments so as to attract trade farther back. This case is not given as typical but rather to illustrate that the space on a store floor is not equally valuable, hence the rent burden should not be distributed among all departments directly on the basis of the number of square feet occupied.

Various methods of distributing the rent charge for a floor are practiced. In some cases this charge is fixed in proportion to the square feet occupied, in others to the gross sales of the department, in others to the gross profits, in still others the rent charge is prorated on the basis of accessibility to customers, and in some stores several or all of these conditions are considered. The last named is probably the fairest method, for all of these methods individually are subject to qualification and exception. Most distributions of rent over floor space are probably more or less arbitrary.

It may be of interest in this connection to note what methods experts use in determining for purposes of taxation the relative values of the different parts from front to back of business real estate. Space will permit but a brief statement. There are several assessment systems in actual use, differing somewhat in detail, and in methods of computing the values, but all aim at the same thing — equitable assessment of city lots of varying depths. Among these systems are the following: The Hoffman-Neill rule, the Lindsay-Bernard rule, the Newark plan, and the Cleveland plan, also called the Somers rule. In all of these systems, excepting the Lindsay-Bernard rule, the standard lot is considered as 100 feet deep. The value of lots of depths differing from the standard 100 foot lot has been worked out in each of these systems. To illustrate, a few figures will be given as obtained by the Hoffman-Neill rule used in New York City, and the same figures obtained by the Newark, and the Cleveland or Somers plans.

Value of City Business Lots of Different Depths

Based on a Percentage of the Value of a Standard Lot One Hundred Feet Deep [9]

Feet Deep	Hoffman-Neill Rule	Newark Plan	Cleveland or Somers Plan
100	100.00%	100.00%	100.00%
1	6.76	.....	3.1
5	17.32	.....	14.35
10	25.98	25	25.0
20	38.99	41	41.0
30	49.47	54	54.0
40	58.49	64	64.0
50	66.67	72	72.5
60	74.20	80	79.5
70	81.70	86	85.6
80	87.73	91	90.9
90	94.01	96	95.6
100	100.00	100	100.0
125	109.00	109	109.0
150	117.00	121	115.0
200	130.00	133	122.0

Note should be taken that under all three rules the value of the first 10 feet is considered to be worth 25 per cent of the total 100 feet in the standard lot. The first 20 feet has a value in all these rules of about 40 per cent of the total. The front half of the lot, that is the first 50 feet nearest the street, is considered worth two-thirds of the whole lot in one rule and more than that in the other two. Now what is true for the lot is true for floor space, and if these percentages are fairly representative for the one they are for the other. It is not urged that these percentages should be

[9] See —

Report of Department of Taxes and Assessments of New York City, 1913, Appendix.

Somers' "Unit System of Realty Valuation," Cleveland.

Bernard's "Some Principles and Problems of Real Estate Valuation," Baltimore.

Also, see —

Rawles, Wm. A., "Classification of Land for Purposes of Taxation," an address delivered before a conference on taxation in Indiana, held February 5 and 6, 1914; published in *Indiana University Bulletin,* Vol. XII, No. 4, pp. 137–153.

used by merchants in their store without qualification. They are simply given here as an illustration of the sort of studies that need to be worked out in the various kinds of retail businesses, studies that will result in accurate figures on such a problem as the distribution of rent over floor space.

Intensive use of location must include many other things, only a few of which can be mentioned in this outline. High rents force store managers to exert every means to bring people to the store and to increase sales. Advertising has been mentioned already as one of these means. Perhaps under this head should be included such features as "special sales," "cut prices," "loss leaders," and special service to people who come to the store — service in the form of music, moving-picture shows, lectures, art exhibits, demonstrations, lunch and refreshment departments, news bulletins, baseball score boards, etc. All of these tend to make the store a center of interest to shoppers, both male and female. The modern store is almost as much an amusement place as it is a merchandising establishment, and there are many people who prefer shopping to most regular entertainments. This is the result of the competition for the patronage of the public in central, high rent locations.

Something further can sometimes be accomplished by encouraging the use of the telephone for all who cannot come to the store, the establishment of a mail order department, and promotion of sales by various forms of personal solicitation, ranging from sending letters to customers to sending a personal representative from house to house. All these methods help to increase the sales and help to reduce that part of the overhead expense due to the rent item.

Finally, and most important, as a means of keeping ahead of the high rent charge is the employment and training of competent salespeople. Contrary to the opinion of many,

the importance of good salespeople does not diminish on passing from poorer to better locations. In a good location the salesperson's efforts are usually specialized in selling some one particular line, or part of a line, or to a particular class of customers. On the whole, each salesman in such a location has a greater opportunity for exercising his ability. Consider shoe selling as an example. Salesmen average volumes of sales ranging from $2,000 to $10,000 per year in small towns. The average in good locations in the large cities is over $16,000 per year.[10] In the latter locations there is an opportunity to sell more — but there is also the opportunity to make more mistakes. Quick, intelligent service and accurate salesmanship are essentials for such locations as much as for any other, and it is among such stores that one finds the unusual salesman — the shoe salesman, for example, who is able to average sales of $30,000 or more per year.

The importance of salesmanship has been discussed in Chapter VI. It is simply mentioned here to point out its relationship to the location factor in a store.

10 Bulletin No. 1, Bureau of Business Research, Harvard University, pp. 12–13.

CHAPTER XI

HOW RETAIL PRICES ARE FIXED

The aim of the retailer, as well as of all others who engage in business, is to realize a profit from his operations. His success is measured very largely by the amount of profit that he makes. Prices, therefore, tend to be fixed at the point that will bring the highest net return. In other words, retail dealers charge "what the traffic will bear."

But while the retailer places the price mark on the goods, it would not be correct to assume that he makes the price, except in so far as he interprets correctly all of the influences affecting values in his community and makes it in accordance with his judgment of those influences. Price, as we shall see, is the resultant of many forces operating in various ways and with various degrees of strength.

Chief among the forces or factors that influence retail prices are the costs of the goods, the costs of selling, the desirability of the goods from the standpoint of the consumer, the competition of other retailers, custom or habit, personal salesmanship, and an ethical element or tendency to fair play among both buyers and sellers.

The costs of the goods and the costs of selling set the lower limit below which the selling price may not fall without loss to the store. However severe the competition may be, whatever the policies of selling adopted, the retailer must get all of his costs back or fail in business. For purposes of clearance or advertising some goods may be sold below the cost point, but deficits so incurred must be made up in

the general sales levels. It is obvious, then, that the retailer should know his costs accurately. An estimate made too high may lead him to think in cases of keen competition that all is over with him before he is really in danger. On the other hand, costs estimated lower than they really are may lead to a feeling of security where danger really exists. Nearly every printed article that has appeared during the last five years on this subject has either taken for granted or has presented facts to show that a great many retailers do not actually know what their costs are, and that they have operated their business upon guesses or estimates that were in many instances far from correct. Many examples of merchants who believed that they were making good safe margins of profit but who were really moving towards bankruptcy because of too low estimates of costs have been cited. A large proportion of failures in retail stores are, no doubt, due to this cause. It is certain that a very large proportion of the retail merchants who are thrown into bankruptcy have very imperfect accounting systems or records of their business.

But costs are not the only considerations in fixing prices. It is even held by many that price fixing based upon costs would be neither desirable nor fair in all cases. When the producer has erred and has expended twice as much in making an article as he should, or when the dealer has mistakenly paid more for an article than others could obtain it for, it would not be just that the burden of such errors should be passed on to the consumers, nor would it be passed on to the consumers under free competition. Each should stand the losses due to mistaken judgment or other like personal mistakes caused by himself. On the other hand, if the buyer of a store, or the producer before him, were able to bring into the market a lot of goods at a much lower figure than normal costs of production and distribution, the

consumer has not thereby earned any opportunity to enjoy those goods at cost. The surplus thus produced is the legitimate profit or reward to the producer or to the buyer for his special efficiency. To what extent such cases occur in everyday business it is, however, impossible to say.

The dealer uses his knowledge of costs only in determining the lower limit of profitable selling. The exact point at which the price shall be set on a particular article must be determined by other considerations. Costs of selling serve merely as a guide as to what the retailer shall purchase and as to what the upper limits of his purchase prices must be. Knowing his costs the retailer can, to a large extent, eliminate unprofitable lines from his stock. Thus, while serving only as a guide, the knowledge of costs is a most important thing to the retailer who wishes to succeed in business.

2. The desirability of an article to the customer is a very important factor in price fixing. It is because people want goods that they come to stores for them and the strength of their wants helps to determine what they will pay for them. It may be the usefulness, the beauty, the uniqueness, or any one of a hundred other qualities that appeals to the customer, but whatever it may be, it is this desire that causes the customer to conclude to give up his money and whatever other goods his money might have bought, in order to possess these particular goods.

The strength of demand measured by the amount that customers will be willing to pay for any article is dependent upon four things:

1. The strength of the customer's desire for it.
2. Possession of money or means to buy it.
3. The relative strength of the desire for this article compared with the desires the customer may have for other articles that his money or means can purchase for him.

4. The knowledge of what this article or similar articles can be obtained for elsewhere.

No goods could be sold unless customers desired them. Desires must be taken for granted. In fact, all human beings have a multitude of desires, more than most of them can ever hope to have satisfied. The best that any individual can do is to satisfy one at a time in something like the order of intensity. The desire for any particular article in the customer's mind nearly always has competing desires for other articles, possibly widely different in nature. The price that he will pay for any given article measures how much of the other articles he is willing to sacrifice. That is to say, in buying any article, a person does not simply give up his money but he gives up the opportunity to get such other goods as his money would buy. Economists have called this *opportunity cost*. It is clear that the price of an article must not be placed above the point at which customers will prefer to spend their money for other goods, or there will be no sales of this article.

The work of the retailer and his salespeople, and of the advertising given to the goods offered in a store, must not be overlooked in discussing the strength of "consumer demand," particularly for goods that are not well known to the customers. It is a well established principle of psychology that we can desire only that which we know something about, and the thing for which desire is the strongest is the central thing in the mind. Strong human wants, such as that for food, when hunger presses, force themselves into the center of attention, while other wants present themselves in the orderly course of thought. A person tends to value in proportion to his knowledge of it, and of its practical significance to him. Salesmanship consists in teaching customers about the goods of the store, their qualities, their

uses, and the satisfactions they provide. In this way concepts concerning the goods, are built up in the customers' minds, and wants for them are developed and strengthened. Not only are demands for new goods thus created, but by such processes, the customers are educated up to a willingness to pay more for a similar article than they otherwise would. The pre-existent desire for the article is made very much stronger, not only absolutely but relatively, than the desire for other goods. The salesman's knowledge of his goods, his way of telling what the customer wants to know, his faith in his goods, and his "nerve" in asking a price go far towards fixing in the mind of the customer a desire for the article at the price named.

In addition to the competition of desires for various goods within the individual's own mind, there is the familiar competition of the world of business, the competition of dealers offering the same or similar articles. In times past the most effective competition among retailers was among those whose stores were located close to each other, but during the last few years, particularly in the smaller towns and the country, the competition of the big stores in the large cities and of the mail order houses has pushed closely up to front rank. Aside from cut-throat competition whose purpose it is to kill off or to drive trade rivals out of business entirely, competition usually results in forcing prices down close to cost levels with possibilities of net profit for the more efficient dealers only. Price levels will tend to become fixed at a place above which no dealer can sell very many goods nor continue his sales for very long.

When customers are ignorant of what other retailers are offering certain goods for, a retailer may sometimes keep up his prices for a time in the face of competition. But selling goods for more than other dealers get is likely to provoke considerable ill will when discovered, and it is re-

markable that this feeling is likely to vary inversely as the value of the article. Nothing seems so irritating to the average customer as to find out that he has been charged fifteen cents for an article that other dealers are selling for ten cents, while an overcharge of $5 on a $25 or $30 coat or garment may create but little resentment. Such details need the careful attention of the retailer.

Competition that drives the price levels below the costs of the goods plus the costs of selling tends either to drive dealers out of business, or to drive them together into combinations having for their purpose the establishment of more profitable prices. The price cutter is to the regular retailer what the scab is to the trade unionist. The public has always opposed such combinations and understandings among dealers while excusing if not favoring similar combinations among laborers. It has always been feared that dealers' combinations, if allowed at all, would lead speedily to monopoly and monopoly prices. One of the most promising movements, however, for the elimination of cut-throat competition, particularly the kind that grows out of ignorance of what it costs to do business, is the movement among business organizations to teach all dealers how to compute the costs of doing business in their own stores and to get them to establish uniform accounting systems, so that results from various stores may be compared readily. Practically every retailers' association in the country is now working towards this end.

It is not thought that accurate knowledge of costs will eliminate competition, but with exact knowledge, it is believed that most dealers will hesitate before beginning to cut prices down below the cost line. If they do cut below they will at least do so consciously, and this has not always been the case with price cutters in the past.

Some associations have worked out, and the trade

papers have published what have been considered fair prices for various kinds of retail services, much the same as professional organizations have worked out schedules of regular rates or charges. The National Association of Retail Druggists has a price schedule, which it suggests that its members should use, showing what to charge for prescriptions. In this schedule careful account is taken of the average amount of time required to fill the various classes of prescriptions, costs of materials, containers, and so on. How generally this schedule has been adopted by member druggists is not known.

4. The rule of custom is strong in the retail business. Customary prices are current in many lines. It is difficult to sell goods for more than these prices, and in case of rising costs, the emergency is met more frequently by reducing quality than by increasing prices. On the other hand, customers do not expect to buy goods for less than the customary prices, hence when costs of production go down and competition among dealers is not particularly keen, the old selling prices yielding enlarged profits are often maintained for a considerable length of time.

Every price that is repeated tends to become customary. After an article has sold for a considerable length of time at the same price both customers and dealers get into the habit of thinking of it as fixed. Such prices tend to cover all the costs of production and distribution and a minimum of satisfactory net profit. Any other set of conditions will tend to upset the equilibrium the customary price presupposes. Goods that have to be sold at less than costs of production and distribution will drop out of the market, while goods sold at large net profits will attract competition that will result in a reduction of the price. Between these two forces, one tending to limit the supply until prices go up to a satis-

factory point, and the other tending to reduce net profits to a minimum, the price tends to become constant or customary. Whatever these customary prices are they must be observed by the retailer in fixing prices on any particular article.

In all of the struggles of business for price and profits, cold-blooded as they seem, and generally are, there are frequent indications of influences of an ethical nature at work. What seems "right" prevails at times over all other forces. Discussions of "fair prices" involve this higher element. The opposition even of disinterested persons to cut-throat competition is another example. Customers are sometimes willing to pay to some dealers a higher price than goods may be obtained for elsewhere, because they feel that the dealers should be supported in their policies of trade, as for example, in selling goods not made in sweat shops, in dealing in home produced goods, and so on. The forces of competition are at least modified to a certain extent through such influences as these. The store manager who is known for his fairness to his employees, for his public spirit, and for his charity is likely to draw trade even if his prices are somewhat higher than those of other merchants who have not manifested the same likeable qualities.

Another instance of the influence of other than purely selfish motives is found in the customary practice among many dealers, druggists, for example, to charge the poor less than the regular rates for prescriptions and medicines. This cannot be explained by saying that they are getting all they can out of these poor people. The star added to the price mark — the sign that less than schedule prices have been charged — found on a large number of the prescriptions in the files of many druggists, indicates that the work of the profession of pharmacy is after all in the interests of humanity and that justice has tempered economics in fixing

the prices charged people beset by pressing difficulties.

The same spirit of fairness is aroused in another connection and quite selfishly perhaps, but, nevertheless, related to the phenomena already described. When a man says to himself when marking the price on an article, "I ought to get so much for it," his idea back of the word "ought" has fairness in view, even if it is to himself. The idea is quite different from that which a man has when he says "I'll get all I can for it!"

Again, when a man is being ruined by competition, he rarely speaks of economic laws, nor does he blame the economic system. He appeals for "fair play." He wants to be defended from "unfair competition." To deal with such cases as his, society has built up entire codes of legal process and precedent on "unfair trade," and to these codes new items are constantly being added. In other words, the ethical is encroaching on the blind, economic, frequently unsocial, forces through the medium of courts and law.

In considering at what price goods should be marked in order that they may sell profitably, it has been assumed up to this point that the demand of all customers is the same, 5. or that there are no individual differences of opinion as to desirability or value. This might hold in theory, but in practice nothing could be farther from the truth. To illustrate, out of ten men, probably not more than five would care for a safety razor at any price. Out of ten women, not more than three or four would buy black hats with pink trimmings, under any circumstance, and so on. Sales will be limited to the number of persons who feel a desire for the particular article. But not only will sales depend upon the number of people who have any desire for the article, but it will also depend upon the price itself. At a given price there will be a certain number of purchasers, at a higher price there will be fewer, and at a lower price there will be

more. Thus the volume of sales possible at a certain price within a certain time is an important consideration in fixing a price that will be most profitable.

Take for example a toilet soap whose cost to the dealer, both purchase price and selling expense added together, amounts to eight cents per bar. At what price should it be sold? The answer will depend upon the possibilities of making sales at different prices. Suppose that the sales for a week at ten, thirteen, and fifteen cents per bar were estimated to amount to 100, 50, and 20 bars respectively. The net results of each pricing system can be most easily understood by a table:

Sales of Toilet Soap in One Week at Different Prices

Selling Price	Total Estimated Sales	Amounts Received	Costs at 8c per Bar	Net Profit
10 cents	100 bars	$10.00	$8.00	$2.00
13 "	50 "	6.50	4.00	2.50
15 "	20 "	3.00	1.60	1.40

It is clear from the above that sales made at thirteen cents per bar will yield the highest net return. This will, therefore, be selected as the sales price for the week. It should also be noted that sales at ten cents per bar are relatively more profitable than at fifteen cents per bar for the reason that five times as much soap is sold at ten cents as at fifteen cents, and the net profit on the sales at ten cents amounts to more than the net profit on the sales at fifteen cents.

One of the productive factors of a retail store is the capital invested in its stocks of goods. When this capital is borrowed for use in the store, interest must be paid for it, and interest should be entered as an expense charge in any case regardless of whether the manager of the store borrows or supplies capital from his own funds. Efficiency in

its use depends upon its activity. By activity is meant the number of times it can be used over and over again in the course of a year. Each complete use of the capital invested in merchandise is known as a "turnover." If expenses and profits per sale remain the same, the greater the number of turnovers within a year, the greater the net profit resulting.[1] This fact has long been recognized. There is an old business maxim that expresses the idea exactly; "A nimble sixpence is better than a slow shilling." To illustrate with a very simple kind of retail business, suppose that a push cart vendor invests $6 in fruits and vegetables and sends out the cart and its load of merchandise with a salesman who is employed at $2 a day. The cart load brings $9. If it takes a day to sell out, the owner will have to pay $2 out of the $9 to his employee. Since the vegetables cost $6, his net profit, excluding repairs and upkeep on his push cart in this illustration, amounts to $1. But if the load can be sold during the forenoon, and another like load in the afternoon, the expenses for the employee will be the same, viz., $2, the cost for merchandise will be twice $6 or $12, while the gross receipts come to $18. The net profits, therefore, amount to $18 less ($12 plus $2), or $4 for the day. That is to say, one turnover per day will yield the push cart merchant $1 profit, but two turnovers will yield him $4 on the same investment. A third turnover during

[1] The annual turnover in a retail business is usually computed by dividing the sales for the year by the inventory. This method is incorrect. In the first place, the inventory is usually taken at billed or cost prices, and is, therefore, not comparable with the sales. In the second place, the inventory when taken only once or twice a year, is usually not taken at a time that will represent the fair average value of the stock carried. A January inventory represents, or should represent, the lowest stock level of the year. Using this method, gives a result that is too high, and is, therefore, likely to delude the merchant into thinking that his turnover is greater than it really is.

The correct way to find the annual turnover is to divide the sales for the year by the average inventory for all twelve months, taken at selling values not costs; or divide the total amount of goods sold, expressed in the figure which represents what those goods cost by the average inventory at cost prices.

If only one or two inventories are taken during the year, they should be taken at times that most nearly represent average stock conditions.

the day would increase his profits to $7, all on the capital investment of $6.

In the illustration above, it is assumed that selling expenses remained the same, that is $2 per day, regardless of the amount of sales. If the absolute expenses of running a store remained the same, while its sales increased, the principle of increase in profits in proportion to turnover would be the same as for the push cart vendor. This is rarely the case, however. Some expenses in conducting a retail store tend to parallel increases in sales, particularly the item of salaries or wages for salespeople, deliveries, rent and some others. The average store conditions can be illustrated better by assuming in our push cart example that the salesman employed receives a commission rather than a salary. Suppose that he receives $2 for every load of merchandise he sells. Assuming all other conditions in the illustration to be the same, if but one turn were made per day, the owner of the push cart would reap a net profit of $1. But if two turns were made, he would make $2, and if three turns were made he would make $3. Thus, when expenses remain constantly proportionate to sales, the net profits for any period of time will equal the net profits on one turnover multiplied by the number of turnovers in that time.

Up to a certain point a store starting in business can generally increase its sales without increasing its expenses proportionally. Beyond this point its expenses parallel increases in sales until a still higher point is reached when additions to sales cost relatively more and more. Expressed in terms of economics, the first is a stage of increasing returns in proportion to outlay, the second is a stage of constant returns, and the third is a stage of diminishing returns. In the first, the percentage of expense to sales decreases; in the second, it remains constant; and in the third,

it begins to climb. The rise in expense in the third stage may proceed to the point where it will not pay to increase the sales at all, for the reason that the costs incurred in getting the additional business are equal to or greater than the gross profits derived therefrom. For the purposes of this chapter, it may be assumed that most retail concerns are in the second stage, the stage in which selling expense simply parallels business. Whatever profit, therefore, is gained on one turnover of the capital of such stores, is multiplied by the rate of turnover.

It is obvious that the retailer will seek to increase the number of turnovers in order to get the higher net profit. It may even be profitable to reduce the selling price somewhat to increase the turnover. This amounts in substance to dividing the net profits due to the greater turnover with the customers. To illustrate how this works out we may consider the push cart vendor again. It was assumed that each turnover would bring a dollar of net profit, and that $3 of net profit could be made in a day if three turnovers could be secured. Suppose, however, that the best that could be done was one turnover per day when selling at regular prices, but that by reducing the prices so as to sell the entire load for $8.50 instead of $9, three turns could be made. Then what would the results be?

Each turnover would in this case net the owner a profit of 50 cents or a total of $1.50 on the three, while one turnover at full prices would yield a net profit of only $1. It would, therefore, be more profitable by 50 cents to sell at the lower prices and turn the goods oftener than to sell at the higher prices. The same principle holds for every retail business. The retail price must be fixed at the point which will bring the highest net return, the number of turnovers considered.

This brings us to a consideration of the possibilities of

turnovers in the various lines of merchandise. Upon this point there have been collected a number of interesting figures.

Annual Turnovers in Retail Stores [2]

Kind of Stores	Number of Turnovers
Grocery	10
Department	7
Variety Goods	6
Drug	4.5
Dry-Goods	4
Hardware	3.5
Furniture	3
Shoes	2.1
Clothing	2
Jewelry	1.5 (once generally)

Annual Turnovers of Departments in Department Stores and Country General Stores [3]

Departments	City Stores	Country Stores
Books	4	1.5
Candy	15	9
Clocks	2.5	1
Embroideries	3.5	3
Furs	5	3
Infants' Clothing	5	3
Laces	4	2
Linens	3.5	2
Men's hats	7	4
Pianos	9	4
Ribbons	6	2
Stationery	5	2
Umbrellas and canes	11	3
Trunks	5	1.5
Veilings	5.5	2
Wash goods and flannels	5	3.2

Average Annual Turnovers of Typical Lines [4]

Goods	Turnovers
Notions	9
Corsets	8
Women's ready-to-wear	6
Wall paper	4.2
Men's furnishings	4.2

2 Compiled by Wheeler Sammons of *System.*
3 *Id.*
4 *System,* March, 1914, p. 235.

Goods	Turnovers
Underwear	4.1
Hosiery	4
Gloves	3.5
Dress Goods	3.2
Silks	3.1
Domestics	3
Carpets	1.5

AVERAGE ANNUAL TURNOVERS IN RETAIL STORES[5]

Goods	Turnovers
Candy	15–25
Groceries	12–16
Cloaks	10–12
Millinery	6– 8
Hats	5– 8
Clothing	4– 6
Furnishings	4– 5
Carpets	4
Hosiery	4
Crockery	3
Shoes	2.5
Furniture	2.5

While the statements of both Sammons and Geuting are subject to the criticism that neither gives any idea as to how many or what classes of stores are considered in getting at their averages, both are valuable.

The Harvard retail shoe store investigation gives the range of turnover from 1 up to 3.6, with 1.8 as the point at which a large number of stores center, and offers 2.5 as a realizable standard for shoe store turnovers.[6]

It is clear that in this matter analysis can be carried much farther than indicated by the preceding tables. It may be safely assumed that each kind of article carried in stock has its rate of turnover, and also its specific selling cost. It is not likely that retail cost accounting can ever be carried to the point where these fine subdivisions can be

5 From an address by A. H. Geuting, formerly manager of the Shoe Departments of Gimbel's in Philadelphia, now owner and manager of a successful shoe store in the same city, as reported in the *Drygoodsman,* Aug. 17, 1912.

6 Bulletin of the Bureau of Business Research, Harvard University, No. 1, May, 1913, p. 14.

made except for such stores as carry only a very few kinds of goods. The best that can be done, as it now appears, is to "departmentize" the accounts to correspond with the general departments or main lines found in a store and then make estimates within those departments as to the relative burdens of expense each article should stand, and as to the rate of its turnover. This involves many questions, such as a comparison of the relative costs of selling package as compared with bulk goods, staples compared with novelties, high priced with low priced goods, and so on.

If carried out in a practical way this analysis would show that the costs of doing business for any retail store constitute but an average of the costs of doing business in each and all of the separate kinds of goods handled. For example, if a grocery store whose costs of doing business amount to 16 per cent of sales could be analyzed minutely, it would be found, probably, that a large number of the goods in that store were being sold at actual costs of more than 16 per cent, some possibly as high as 25 per cent and even 30 per cent; while other goods would run considerably less than 16 per cent. It could be safely assumed that such goods as spices, teas, fancy canned fruits, very perishable goods, and other goods sold in small quantities and requiring considerable time to demonstrate and handle, cost the grocer more than 16 per cent; while the selling cost of such goods as sugar, flour, lard, kerosene, rough staple vegetables, and so on, is less than 16 per cent of the sales price.

A number of retailers and others who have been studying the application of cost accounts to the pricing of goods, hold that the general percentage of expense of selling should be added uniformly to all goods purchased, and that a uniform net profit should be added to this amount. The sum of these three items, the cost price of the goods, the costs

of selling, and the net profit, should be the price at which the goods should be sold. That this method would not result in prices representative of market values we have already seen, but it may be pointed out here that if this method were followed, some goods would have to bear a much heavier expense burden than they really incur, while other goods would be sold for less than the original costs, plus the costs of handling.

In reply to this criticism, those who favor this method argue that this makes no practical difference since the total expenses and total sales will probably be the same as before. But this answer is subject to question, and, besides, the retailer who attempts this plan is likely to find himself in trouble with his competitors. Some who may be carrying only such goods as may be handled and sold at low expense, will thus be able to underbid him for trade and force him to drop his prices on such goods or lose the opportunity of effecting their sale. In case he refuses to reduce his prices, it may be assumed that people will go elsewhere for those goods on which his prices are high in comparison with the prices offered by other merchants, while they will come to him for goods which he sells at lower prices than others, though they are burdened with a high cost of handling and selling. But if he does not raise his price on these, he will begin to lose money, for the sales that he planned on in the lower expense burden goods can no longer be made. Thus his deficits in the higher burden goods will not be covered.

The only logical way would seem to be for each article in the store to carry its own burden as fully as possible. Where the selling expense is high, the price should be made correspondingly high, and where the selling expense is low, the price should be relatively moderate. Long profits should be made on the slow sellers and short profits on the quick

sellers. Competition will tend to drive prices in these directions.

It will now be of interest to see what practice retailers follow in marking the selling prices of their goods. It will be recalled that the costs of the goods, plus the costs of selling, set the lower limits at which goods may be sold, while the relative desirability of the article to the consumer sets the upper limit. Between these two limits there operate such forces as competition, custom, personal salesmanship, and desire for fair play or the square deal. With these forces to reckon with, how is the price to be set?

One of the customary methods is to study competitors' prices and then fix prices at the same points. This is a dangerous policy unless the retailer knows what his own costs are and that his prices adequately cover them. If competitors' prices are too low on some goods, the only way out of the difficulty for the retailer is to avoid such goods as much as possible, deal in other lines in which prices are not so low, secure exclusive agencies, and specialize on certain profitable lines.

When competitors' prices are not known, the method of determining prices most commonly used is to compare the goods to be priced in every way with other goods of the same class that have already been successfully sold, and to mark the new goods higher, lower, or the same, as they seem to be more, or less, or equally desirable.

In this connection it is worth noticing that some of the most successful retailers constantly call on their salespeople for assistance in this matter. The salesman is asked what he thinks he can sell a given article for. The salesman realizes that he succeeds with his firm only in proportion as he makes a profit for it. In the light of his experience with past goods he will name as high a price as he thinks he can get. But if he is wise, he will not make it too high

for he may be called to account later on for his inability to sell it at the price named. This method, therefore, not only gets a price set upon the goods at which they are likely to be sold, but also enlists the full co-operation of the salesman in making the goods move at the price named.

A combination of these methods — a comparison with competitor's prices, comparison with prices of other goods successfully sold, using the judgment of the salespeople, in the meantime checking back to the costs of the goods and of selling — is the plan followed by a large number of successful stores. Following any one plan is likely to lead into difficulties. Only by considering all of the factors affecting cost on the one hand and demand on the other, can the price be set which will bring the best returns to the store.

A large number of goods are exceedingly variable in value, particularly those affected by changes in fashion. A recent article in a trade paper asserted that 25 to 30 per cent of the goods handled in department stores are subject to mark-downs. In other words, in such goods, even when of the same quality, there is no certainty that all purchased at one time can be sold at the price named at first. As soon as a stock of such goods begins to move slowly at the price first set, it is customary to "mark them down." Reduction sales are held, and the goods cleared out.

To illustrate, suppose a concern purchases a lot of fancy silks at a uniform price of $1.35 per yard. In the lot there may be a great variety of patterns, colors, and shades. Recognizing the fact that demand for such goods as dress silks, varies exceedingly with individual purchasers, and that the demand created by fashion is at its best very fickle, the concern sets out to make the best of it. Instead of setting a uniform price on the silks at which they hope to sell out the entire lot, they may fix, at first, a price as high as $3.00, or more. The fact that a "fresh shipment of beau-

tiful dress silks in the very latest patterns has just arrived" will be announced, and some shoppers are likely to be interested. As a result some sales will be made. These first customers will pick out what to them seem the most desirable patterns and colors. Then in order to move another portion of the stock a "cut" in price is resorted to. "Silks formerly offered at $3.00 are now being sold at $2.19." This brings a great many more shoppers, and at this point a large part of the goods are probably sold. But there may still remain a collection of odds and ends of the patterns that did not seem very desirable to the two classes of shoppers that have already examined them. These are "reduced" again, perhaps sent to the bargain basement or subway store, to be sold at $1.69. Here the last of the lot is disposed of. This policy seems to succeed better than to offer the entire lot at say $2.25, and hold to that price until all are sold. At the latter price it is not likely that all could be sold and the net result would be considerably less profitable to the concern than when sold in the way indicated. This method of marking up goods and making reductions as necessary seems to be the most effective way to sell some goods, especially those that are subject to changes in style. Besides bringing handsome profits to the concern directly, the spectacular cuts in prices, incident to the system described, furnish excitement for the readers of the store's advertising, and help to draw crowds who may buy other goods as well as those advertised.

There are certain well-defined policies with reference to retail store prices that need to be mentioned. The first of these is the one-price policy. Stores following this policy mark their goods in plain figures and, at any given time, sell to any or all buyers at the same price. That some buyers might be willing to pay more if they had to, makes no difference. If the price is too high for others no reduction

is made. All are treated alike. The one-price policy is comparatively modern. It first came into use in this country in the big dry-goods and department stores. The organization of such stores as they grew became so complicated that any other policy was hard to carry out. The old dicker and bargain policy still found in many one-line stores of the old-fashioned type required salespeople with considerable skill in handling customers. The one-price policy made it possible to employ people who had had no training in business nor in any phase of buying and selling. To be successful the one-price policy demanded that the price be fixed at the point at which the goods would move, and after a trial, if it was found that customers did not buy, the prices could be revised and reduced. If the prices were made too low, that fact could also be noted and changes made accordingly. Thus the bargaining process was removed from individuals and made a matter of reaching groups.

The one-price policy has been found very successful in this country and very much in accord with the common sentiment of the American people — equality of opportunity (even in buying goods) to all. It has resulted in great economies in time for both buyer and seller. The weak and the ignorant have been placed on a level in purchasing ability with the best. Salesmanship under the one-price policy has been raised from the level of talking about the price, to demonstrating what is being offered for the price.

The old plan of marking goods with secret or code price marks and then selling them to customers for as much above this price as possible has not entirely passed away. There are still houses whose salesmen "size up a customer" when it comes to stating the price, and then ask as much above the minimum set by the concern as they think the customer is likely to pay. In the old days the customer usually par-

ried and made an offer of considerably less. Then the higgling began, the salesman bragging about his goods and the customer pointing out their defects, until finally some compromise was reached, often halfway between the price first asked and that offered. In many instances the salesman received a commission on all sales in which he succeeded in getting more than the minimum decided upon by the concern, some firms splitting such profits evenly with the salesmen. Except in the largest cities where, in addition to the modern department store with its one price to all, are found the lowest grade of shops with different prices to different people, these practices no longer prevail.

The system of variable prices has little to commend it except its age. In principle it accords perfectly with the old theory of freedom of the market and free competition. Under this principle the "fittest" bargainer "survived." In times past when man's wants and varieties of goods were not so numerous as they are now and when there was not the pressure for time that characterizes modern life, there may have been more reason for such a policy than at present. Since there were fewer goods to buy, and fewer varieties of those goods, it must have been easier to exercise wisdom in their selection and purchase, and to know their qualities and values. Customers could then afford to waste hours in jangling and bargaining in the shops over half shillings, whereas now, so far as possible, every development is towards setting man's time free from the economic struggle of life. Hours of labor are cut down, children are forbidden to labor before reaching certain ages, and pensions are given to the aged so that they may retire from labor. In accord with this same tendency, the people of the present are seeking to standardize and to make automatic as much of the economic life as possible, in order to save time for

other things. The one-price policy in retail stores seems to be in line with these tendencies.

Finally, there are indications that in the near future the public will be more generally informed concerning the costs of distribution and consequently concerning retailing. Much of the dissatisfaction and criticism of our distributive system has grown up because the public has not fully understood what work has been performed for them by distributors and what the legitimate costs for such services really are. Not knowing the facts, such information as the people have gained concerning the margins of gross profit that retailers get has made it easy to conclude that middlemen are robbers. A clearer knowledge of the necessary costs of any form of distribution must certainly serve to clear up any misconceptions or misunderstandings.

It has already been suggested, and it may not be long before the more progressive retailers will decide to reveal their business costs to their customers and urge them to come for goods on the grounds that their costs of doing business are less than their competitors. In these days when we worship the ideal of efficiency, such an argument as that, truthfully stated, should prove a great trade attractor. Sooner or later the growing unrest of the public concerning the rising costs of living will be focussed on the costs of distribution. Public investigations will be made and legislation proposed. Much of any ill-will that might be present in that scrutiny, when it comes, can be averted by retailers if they will but take the public into their confidence. Price is the tender spot in nearly all economic discussions where public interest is concerned. It is highly essential that all retailers, who are doing a legitimate business upon a reasonable profit basis, co-operate in letting the public know what are their price-making processes and problems.

CHAPTER XII

THE DEPARTMENT STORE

The department store is a retailing institution that deals in several lines of goods, each line separated or "departmentized" from the rest, both in location within the building and in the concern's accounting and management systems. Each department is considered practically as a store in itself, and in large stores each has its separate organization of buyer, or department manager, and salespeople, much the same as any independent store.

The word "department store" has not been received with much favor by the managers of some of the largest and most representative institutions of this kind. "United stores," "consolidated stores," and other names have been suggested as more appropriate. The reason for this disfavor is probably that the word "department store" has been claimed by many concerns doing business on planes that have tended to draw disrepute to the whole class. However, the term "department store" has come into general use by the public, and it is probable that any change would be difficult.

Although department stores have existed in this country less than half a century, their origin is hard to trace. The general merchandise store once so common, and still found in large numbers of country towns, handling all classes of goods, but not in departments, is considered by some as the prototype of the modern department store. There is certainly a similarity in the functions performed by the two

institutions, but their respective organizations are entirely different, and but few of the present department stores were the direct outgrowth of general merchandise stores. The general merchandise store has usually given way to specialty or one-line stores, and the department store has appeared only after the merchandising of the community has become well established and advanced. A large number of department stores trace their beginnings to dry-goods stores. Factory production of women's goods, and of goods formerly made in the homes, such as women's and children's ready-to-wear, underwear, hosiery, millinery, laces, embroideries, and household goods of all kinds has resulted in a demand for special outlets to women customers. Since the dry-goods stores were first in the field as suppliers of women's needs these new lines of goods have naturally found a place in dry-goods stores expanded into department stores. The competition among dry-goods merchants, and the narrowing margins in the older lines of goods, such as the textile staples, have helped to make the merchants more ready to take on the new lines and to expand their stores by adding new departments than they would otherwise have been. Thus, by gradual expansion, the dry-goods store grew into a department store.

It seems that, in some cases, the department store had its origin in a consolidation of several stores conducted by as many individuals under one roof. It has been customary in many instances for the owner of a building, or the lessee of the portion suited for store purposes, to lease a part of the floor space to one person, and other parts to others with the understanding that each should conduct a retail business thereon in a specified line of goods not competing with other lines of goods offered in other departments. There are in existence today many such combined stores. With the

passage of time the ownership of these several departments passed to one individual, who thereby became a department store owner.

Whatever were the beginnings of department stores, the fact remains that the period following the panic of 1873–4 in this country saw a rapid development of this class of retailing establishment. The Jordan Marsh Company's store in Boston is credited by some with being the first. This store, it is understood, received the idea from the Bon Marché, a large retail store in Paris, and the first department store of which anything is known anywhere. Shortly after the Jordan Marsh store had been departmentized, other department stores were established in Chicago, Philadelphia, and New York.

Following the close of the Civil War, prices of all commodities handled in retail stores began to fall. Competition stiffened, new methods of merchandising began to be tried out. To use a stock exchange term, the "bears" ruled the retail markets. Many of the older storekeepers did not know how to adapt their business so as to buy and sell under such conditions. Out of these circumstances grew the tendency among some retailers to buy for cash in the wholesale markets and direct from the producers, to seek out bargains, and to sell quickly by offering the merchandise at prices lower than usual. Profits were made smaller per sale, but stocks were turned oftener. Advertising was applied to help sell the goods. Special sales began to be introduced; while, on the other hand, the demand of the public for goods increased both in variety and amount. Under these conditions there appeared contemporaneously the department store, the mail order house, and the chain store.

According to the United States Census of 1910, there were 8,970 department store merchants and 88,059 general

store dealers in this country. C. C. Parlin stated in 1913 that there were 1,140 department stores in the country, each of whose sales averaged over $200,000 annually, and he estimated that fully 40 per cent of the dry-goods and ready-to-wear goods of the country were marketed through these 1,140 stores.[1]

Naturally the department store business is largely concentrated in the larger cities. Greater New York has nearly a hundred establishments of this character doing a business aggregating more than $200,000,000 per year. In New York the sales of some of the largest stores are in excess of $20,000,000 per year. One store in Philadelphia probably sells $30,000,000 per year. It is commonly stated that the largest store in Chicago has sales amounting to $35,000,000. The largest in Boston sells $20,000,000, and the largest in St. Louis nearly $10,000,000 worth of merchandise annually.

The modern development of the department store is not exclusively American. In Paris there are at least nine or ten large stores of this type. Besides the Bon Marché already mentioned as the pioneer, there are the Louvre, Galleries Lafayette, Printemps, Trois Quartiers, Maison de Blanc, Cour Batave, Samaritaine, and Dufayel's. In London, Harrod's, Whiteley's, and Selfridge's stores are well known. H. G. Selfridge, however, is an American, a former resident of Chicago, and at one time a partner of Marshall Field. The private department stores do not succeed as well in England as on the Continent, for in England their functions are at least partly performed by the big co-operative societies' stores, of which there are branches in nearly all parts of Great Britain. In Germany this system of merchandising is well developed and the number of establishments great. One of the stores in Berlin, Wertheim's, is

[1] Parlin, C. C., "The Merchandising of Textiles," 1913.

said to occupy the most remarkable merchandising building in the world. Department stores are also to be found in China, Japan, Argentina, Australia, and Canada.

The department store has come into existence in response to an economic need. It has succeeded and has continued to hold its place, and to gain ground because it has occupied a certain point of advantage in the distribution of goods. Its future in one form or another in large cities seems secure.

The characteristic things about department store merchandising are:

First. Many departments or sections under one roof. Stores are not usually classed as department stores unless they have at least a score of departments and from this number to a hundred or more. One of the largest is said to have over 250 sections or departments.

Second. Special conveniences offered to all shoppers whether they buy or not. Under the guise of "service" the modern department store has come to be a sort of club house and amusement place for women. One ordinarily finds in these stores rest rooms, silence rooms for nerve-tired shoppers, reading and writing rooms, restaurants, information bureaus, post offices, telephone booths, and telegraph stations for the unrestricted use of all. In some stores lectures, demonstrations, musical programs, moving picture shows, and even operas and plays are given frequently. In a few cases, the department store has served as an employment agency for domestic help, as a house and estate agency, and even, recently, as a market for corporation securities. Some department stores conduct banking departments accepting the deposits of their customers and employees and paying interest on these deposits, although this form of service is now somewhat under a cloud because of the recent failures of large Eastern department stores

having banking departments. Hair dressing and manicure parlors, and children's barber shops are regular adjuncts of the largest stores in all cities. Play rooms for children, lost and found departments, and dental parlors are also common. None of these services have any direct connection with the sale of goods in the store. Most are gratuitous, and where direct expenses are involved as in the restaurants, hair dressing, and manicure parlors, the charges made are usually only sufficient to cover those expenses, and no special attempt is made to get a profit therefrom. All of these services are given, however, to attract people to the store, and to get them into the habit of coming, so that their wants may be satisfied by merchandise purchased there.

Several special forms of service in direct connection with the sale of goods are also common. Free delivery, sales on credit, C. O. D. sales, goods sent to the homes of customers on approval, guarantee of " money back if not satisfied," and " goods freely exchanged," are so common now as to merit no more than a remark. While many of these services are extended to their customers by specialty or one-line stores, none have gone farther than the big department stores, and none could profitably do so.

Third. The employment of specialists in the advertising department. The great volume of advertising run by the larger stores is intended to draw people to the store and to facilitate the sale of goods. It is intended to take the place of much of the expert salesmanship that might otherwise be necessary to effect sales. Department stores are the greatest users of newspaper advertising space. W. C. Freeman, advertising manager of the *New York Globe,* recently estimated the amounts expended annually by some of the principal stores for advertising as follows: [2]

[2] *Printers' Ink,* Oct. 9, 1913.

John Wanamaker's, Philadelphia	$450,000
John Wanamaker's, New York	700,000
Gimbel's, New York	700,000
R. H. Macy & Co., New York	350,000
Altman's, New York	300,000
Stern Bros'., New York	300,000
Jordan Marsh Co., Boston	300,000 plus
Shepard, Norwell Co., Boston	300,000 plus
Houghton & Dutton, Boston	300,000 plus

This expense is said to amount to from 2 to 5 per cent. of the total sales of the stores named.

Another feature about department store advertising in addition to its magnitude, is its specific, concrete presentation of information about goods. Style, quality, and price have been the lines along which the chief appeals for business have been made; and of these three, price has been the one most emphasized. Comparisons of "Our special price" with "Regular price," now happily not so much used as formerly by the largest stores, have been heralded in black face type for years from one side of the continent to the other.

The usual reasons for these price offerings, where reasons were given, have sometimes been that the store has either overbought and wishes to unload at a sacrifice, or has had some misfortune such as a fire and must sell its goods at greatly reduced prices, or more commonly that it has been especially fortunate in its purchases. It may almost be said that the larger part of department store business seems to have been built up on bargain advertising. It is certainly in this field that some of the most remarkable successes have been made.

On account of the tremendously rapid development of machine production during the last fifty years, it has not been possible for any producer to predict the strength of demand for the kind of goods that he planned on getting out. New industries have been springing into the field, competition has grown keen over-night, demands themselves

have both developed and changed rapidly. Channels of distribution have not been well defined and not always open to all. In consequence of such unsettled conditions, every producer has had to take chances on the possibilities of marketing his goods successfully. Many miscalculations have resulted. In such cases the producers have been glad to unload their unprofitable surpluses at even less than the costs of production; in fact, they have been glad to take anything they could get.

Department stores with their own buying organizations able to buy direct from producers have been best fitted to take advantage of these manufacturers' sacrifices. With ready cash and the organization for taking care and disposing of such goods, the buyers of these stores have been able to pick up many lots of goods of this kind. By their direct merchandising methods, they have found an opening in the economic system of production and distribution of goods that other concerns had either failed to see or could not benefit from. Their function here is to pick up surplus stocks in the hands of producers and dealers, stocks not wanted by the regular trade. Out of stocks thus bought up, the department store has been able to make bargains an actuality.

Because acceptable job lots of this kind are not always available for all of the departments of a department store, it is sometimes necessary to adopt other means to get goods at prices lower than those paid by other dealers. The department store with plenty of capital has been able to buy for cash large quantities of goods and get larger discounts than would be given to those who buy only in small quantities. In many cases these quantity discounts have been overlarge from an economic standpoint. The temptation of the big order and the competition of other producers have tended to drive the supply prices down even below the point

one might reasonably expect in view of the savings to the producer in getting rid of his product in large lots.

In still other cases the department store buyer has been able to get his goods at unusually low prices by ordering them in large lots in advance of manufacture, thus lessening the manufacturer's risk, and guaranteeing work for his plant during seasons that might otherwise be dull. In these ways the big department store has been able to get many consignments of goods at figures that have permitted them to sell at bargain prices and still make a good profit.

But as merchandising conditions become more stable, and as it becomes more nearly possible to predict the demand for a certain line of goods, either by careful analysis of all conditions that may affect it, or by producing only to order, as is now largely done by many concerns in the shoe and clothing trades, the opportunity of picking up job lots of goods of dependable quality becomes relatively rare. Surpluses of products that the producers cannot market through the regular channels of trade because of mistaken judgment as to demand are not so frequent. Goods offered in this way are now very likely to be defective or poor in quality. Defective goods, however, have entered very largely into the retail markets especially through the medium of the cheaper grade of department stores. While these "goods" have been heralded as bargains, the advertising in such cases does not belong to the realm of truthful merchandising.

In some cases, it is generally believed that department stores have gone farther than this in their advertising, and where no bargains have existed, the advertising writers have conceived them in their own minds and published them as realities.

Untruthful advertising is not peculiar to department stores. Specialty stores have sinned in this respect as much

as department stores, differing only in the degree to which they have used advertising. Mention of the matter is made here simply because department stores are such great advertisers as compared with all other forms of retailing establishments. The better classes of department stores are strongly opposed to such advertising, and it is even claimed by some that the "bargain" as an appeal is losing its power to draw customers.

"Newspaperdom" says: "One variety of lie that has had its day of effectiveness is the 'bargain-sale' lie. Advertisements of bargains are still printed, but the public is almost as impervious to them as the side of a battleship would be to the fire of a battery of pea-shooters. The delusion still exists among many merchants that this is not so, but no such delusion exists among the great merchants."

George Hough Perry, former advertising manager of John Wanamaker, Gimbel Bros. and Siegel Cooper, is reported to have said that "bargain sales are passing rapidly into the limbo of exploded ideas, that all future tendencies will be toward emphasizing not price, but what can be had for the price, and that 'bargain' sales are obviously and necessarily built upon lies."

J. J. Stokes, advertising manager of Marshall Field & Co., says that "nine-tenths of all bargain advertising is made up of falsehoods and exaggerations and that 100 lines of advertising concerning the publicity of a business house is worth 100 pages of 'bargain' falsehoods."

Fourth. The main factor of department store efficiency apart from its buying and advertising powers, already referred to, is its specialized form of organization. In this respect the modern department store differs as day differs from night from the old time general merchandise store. In the latter, there was no specialized organization. Clerks sold goods in all or nearly all departments, and accounts

or records were not separately kept. For the most part, when the store made a profit, the owner could only guess what lines of goods produced it, and his guess was as likely to be wrong as right. Possibly department store system would be impracticable in the general merchandise store, but the lack of it was the weakness of the latter, and the presence of it the basis of the peculiar strength of the former.

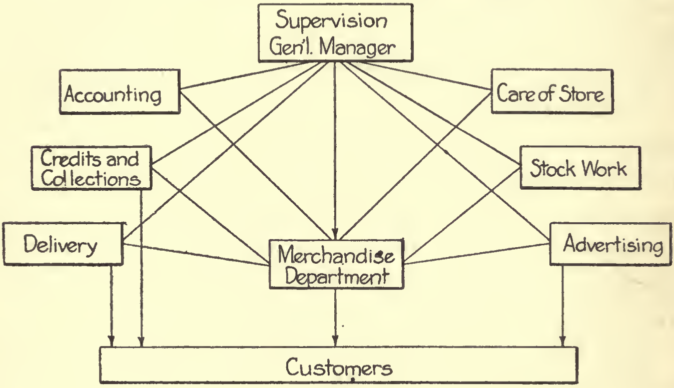
In a department store, each department or section is considered as a separate specialty store or shop. Its accounts are kept separate, and under normal conditions it must stand on its own feet; that is to say, it must pay its own expenses, and its prorated share of the general expenditure for rent, light, heat, power, insurance, office up-keep, and so on. In addition to this it must seek to make a net profit.

Each department has its own organization for buying and selling goods, consisting in the former case of its manager or buyer and necessary assistants such as assistant buyer, head of stock, and salespeople. In these respects the department is exactly like a specialty store, but the accounting, advertising, stockroom work, credits and collections, handling of the cash paid out and received, and the delivery of the goods is done for the individual department by special departments organized to serve all of the merchandise departments in the store. The specialty store, selling one line, has its own accounting, advertising, credit, cash, and delivery departments, but in a department store of forty sections, for example, there is but one of each of these departments to serve all of the forty sections.

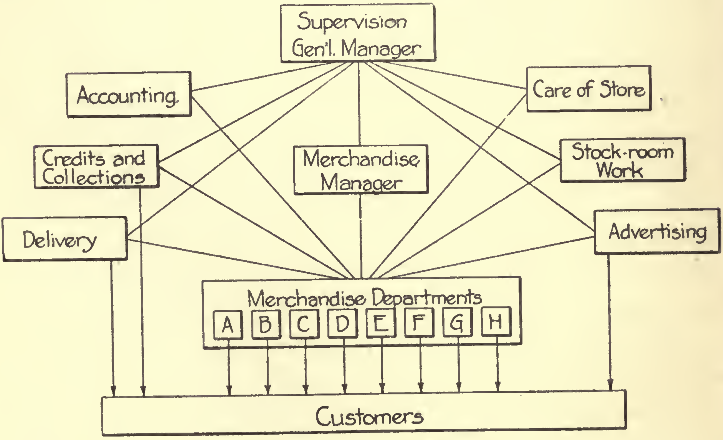
The charts on page 206 will make these relations more clear and indicate the difference between specialty store organization and department store organization. In Chart 1 the single merchandise department of the specialty store is served by all of the surrounding departments. In Chart 2 the merchandise departments, A, B, C, D, E, F, G, and H

Charts Showing Internal Organization of Specialty and Department Stores

1. Specialty Store Organization.



2. Department Store Organization.



are all served by the same number of special departments, excepting that one new one has been added, viz., merchandise manager. This official acts as a sort of head buyer for all departments, apportions the buying funds among the departments, advises the buyers, gives approval or disapproval to department sales policies, and so on.

We need not go further into detail here concerning the organization of department stores. Such studies have already been made by others.[3] But it may be of interest as throwing light on the character of these organizations to trace an article through a store, from the time it arrives until it is sold and delivered.

After the purchase of the article by the buyer it is sent to the store and delivered in the receiving room. Here all the goods are unpacked, and after their qualities, condition, and quantities are noted, are passed on to the stock room. The goods are received by the head of the stock room, and prices are marked by the buyer, or, generally, by one of his assistants from the merchandise department managed by the buyer. The article is next placed in reserve in the stock room until needed in the store. At the proper time it is brought out by a stock boy and given to the head of counter or head of stock in the department. It is next sold by the salesman, the cash is received and sent to the cashier, and the article is sent to the wrapping desk to be inspected and wrapped, and if the article is to be delivered by the store, it is next addressed and then sent to the delivery room. Here it is selected from the mass of packages that arrive there and is placed in a bin that is set aside for the part of the city in which the purchaser resides. One bin is provided for each section of the city to which deliveries are made. From the bin the article is taken by the driver of the delivery wagon who is usually accompanied by a boy,

3 See bibliography at end of chapter.

known as the driver's boy. When the home of the purchaser is reached, the boy runs to the door with the parcel, makes the delivery; and then the store's work so far as that particular article is concerned is completed, unless the customer makes a complaint about it, returns it for exchange, or demands her money back. In this case other machinery is started which we need not trace out here.

The modern department store is a wonderful business mechanism. At its best it represents very high efficiency as a trade-getting and profit-making institution. Its advantages in competition over the specialty or one-line stores lie in its conveniences for shoppers, the many lines under one roof, the special services that are so attractive to many people, and the displays of goods on all sides in the many different lines. Such displays suggest purchases to customers and bring about sales that one-line shops could not effect at all. The department store method of distribution actually stimulates new demand, by showing to customers things about which they might not otherwise know anything.

Another advantage of the department store is its division of labor and the employment of the best people obtainable as heads of departments, to plan and suggest schemes for carrying on the store work. In the best department stores great care is exercised in the selection of employees, in training them specifically for their work, and in placing them where they will be most efficient. For the routine work the department store is able to get along with the services of cheaper help than most one-line stores, just because of the fine division of labor and because the work of each employee is carefully planned and standardized. Heads of departments draw salaries and incomes that average considerably higher apparently than the average incomes of specialty store managers. Buyers receive from $2,500 up to $25,000 per year, and in some of the better stores $5,000

to $10,000 is the average. For the higher positions, such as merchandise manager and store superintendent, even higher salaries are paid. It is known that two or three department stores have paid salaries as high as $50,000 per year. The average salaries for the rank and file are, however, somewhat low, and the reason for this is largely that the type of personal efficiency required is not very high. A change is to be noted in this respect, however, for as competition grows keener, the demand for personal salesmanship and skilful personal management of every detail increases. No plan, no matter how well worked out, can substitute automatic service for human service in dealing with customers. Careful planning goes a long way, and in the past twenty-five years has progressed rapidly, but when the limits of mechanical devices and system are reached, store managers will have to give their attention to bringing up the standard of their employees by some sort of training or apprenticeship perhaps, but more likely by systematic education for this kind of work.

The department store usually has the advantage of being the centrally located store in the retail district. The architecture, especially in its modern types, is in every way helpful to its purpose of selling goods. As already shown, the department store has buying power and advertising power far in excess of most specialty stores. Moreover, it has a prestige in the public mind, carefully cultivated in all cases, well earned in some cases, that goes far to make it, as an institution, successful. Big business appeals to the imagination of the people of the twentieth century, especially to the people of the middle and lower classes. The big store suggests class and distinction. To trade there to a certain extent confers distinction. The big store's automobile delivery truck calling at one's residence heightens this effect.

On the other hand, in the great cities, a large part of the

trade of the ultra-rich and fashionable goes not to the department stores but to the exclusive little specialty shops. The department store is fitted to transact business with the masses, but with certain exceptions, not with the classes. The department store cannot as a rule build a large enough trade on exclusive lines to make the business pay. Handling such goods is more the function of specialists who have unusual taste and fitness for selecting goods, displaying them, and giving the service that touches the vanity of wealthy shoppers. Department store employees are not commonly equipped to do this well, and where an attempt is made to get such trade, it is usually by classifying the stock into departments of higher and lower grade goods, providing special entrances from the outside of the store leading to each, and by employing salespeople especially fitted to serve in the more exclusive lines. Such trade pays well in profit when it can be obtained, but at best such customers are fickle in their demands, peculiarly subject to whim, careless in their obligations, and often unreasonable. Only a few department stores have successfully handled this class of trade. The department store is essentially a store for the masses.

There are a number of economies in department store management not possible in the specialty store. Having one accounting department, one advertising department, one delivery department, one credit department, and so on, makes it possible to serve all of the departments or sections in the store. How much these savings amount to cannot be stated exactly, as there are no figures available, but it would seem that certain advantages must result from this arrangement. An efficient credit department serving forty or fifty subsidiary merchandising departments is able to accept more credit, and take more chances, because it is in a position to employ more effective collection methods, and is better able to enforce payment of slow or doubtful accounts. A specialty

store would either have to refuse credit to a much larger number of people seeking credit or else shoulder a much larger loss from bad debts, simply because it cannot give the special attention to credits that the department store credit manager is expected to and does give. In a certain sense these special departments, credit, delivery, advertising, and so on, are giving service to a combination of co-operative merchandising establishments. The advantages urged in favor of co-operative delivery for retail stores, for example, are in a measure realized in the department store.

On the other hand, some questions may occur as to just how far these economies go, and to what extent they are counterbalanced by the disadvantages of aggregation, such as a department store represents. The average cost of doing business in a department store seems to be considerably higher than the average for one-line establishments, of course excepting the high costs of the few exclusive shops catering to the super-rich. On comparing the items of expense in department stores with those of specialty stores one finds that rent is higher, advertising is higher, delivery is higher, salaries run about the same, and bad debt losses about the same.[4]

[4] Many popular writers on department stores have assumed that the department store method of distributing goods is much more economical than any other. It is remarkable that so many have taken this view with hardly a fact to warrant it. Some official bodies of a public nature have expressed the same view upon equally groundless bases. As an example of this sort of thinking, the United States Industrial Commission in its final report (Vol. 19, p. 549) may be quoted:

"If rightly managed, the department store must be able to make great economies in rent, cost of superintendence, office expenses, and, possibly, in clerk hire."

But in the testimony given before the commission there was nothing to lead to such a conclusion. For example, S. M. Woodward, a Washington department store manager, testified as follows (Vol. VII, p. 736):

"Q. You believe you can sell goods cheaper than the one-line stores can, or do you know that you can?

"Mr. Woodward's answer: 'I do not think we ever claimed that. I know that the quantity of goods that we purchase in many lines enables us to do that.'"

A few moments before Mr. Woodward was asked:

"Does the department store, from the economical standpoint, require less help to do the same business than in the old way of several stores?"

"A. No; it requires more. That evidently does not seem reasonable to you, but we have to wait upon people now with specially trained help in more than half of our departments. Of 60 to 80 per cent of them that is true. In

Why rent averages higher is explained in another chapter. Advertising is higher because the department store must reach out farther for business. It has many more competitors of many kinds than the average one-line store. It uses its advertising to assist in making quick sales. In a measure it substitutes skilled advertising for skilled salesmanship. An advertising expense of from 2½ to 5 per cent of sales is not uncommon in department stores, but above the average for specialty stores. Delivery though done for a number of departments, hence cheaper than if done for a single shop doing business with the same customers, tends to be higher because the department store delivers over a much wider territory than the average one-line store, and probably delivers a much larger percentage of the goods purchased.

Another factor of expense in department stores that places them at a disadvantage is the gratuitous service they give to all who come. Competition forces department stores into these things. There is no escape. The tendency seems to be to add more and more of it. Trade must be gained, but the only way to gain it is by getting the people to come to the store. The service factors bring people to the store and must therefore be employed. The more special service that is offered by one store, the more other stores must offer

other words, a customer is not a customer, unless she is waited upon intelligently."

Later Mr. Otto Young, manager of "The Fair," was asked (Vol. VII, p. 696):

"Q. What is the economy of many departments under one management?"

"A. The economy is largely in the quantity of goods that we can purchase, as against the small merchant. We buy our goods for cash. No department store that has to buy goods on credit ever made a success. Department stores do away largely with the middlemen, the jobbers. They buy nine-tenths of their goods direct from the manufacturer; they do not have to pay two or three profits before the goods get to them. A man that wants to buy a dozen — a manufacturer would not bother with him to sell him a dozen; he must go to a jobber. That jobber must make 10 or 15 per cent on the goods; therefore they cost the buyer more money."

Other department store managers gave similar testimony, yet the Industrial Commission concluded that "If rightly managed, the department store must be able to make great economies in rent, cost of superintendence, office expenses, and, possibly, in clerk hire!"

in order to hold their trade and gain customers. It is hard to see just where this tendency is going to end.

The expenditure for salaries in department stores runs about the same as in specialty shops. This can probably be explained by the high salaries paid to the managers, and to the fact that it is difficult in a big store to apportion employees to the various departments in the exact proportions necessary to do the work properly. More or less waste of time occurs, all of which the store must pay for. Small stores have such losses too, but the work is not so fully divided into departments, and employees not employed in selling can usually be set to work at something else. This item of loss is not by any means uniform. Efficient stores both large and small attempt to reduce it to a minimum, but it seems that small stores are able to do so more fully than the big department stores.

The department store, even when planned for the highest efficiency, is a place where there may be a thousand leaks. Hired employees are proverbially less diligent and watchful than people in business for themselves. Carelessness, loss of materials, soiling materials, spoilage, leakage, breakage, and so on are likely to occur more freely in the big store than in the small store. Only eternal vigilance can keep such losses down, and there seems to be more danger of slackening in vigilance under hired eyes than under proprietor's eyes. The department store must spend much money and time in developing its system, in making out its accounts, and in working up statistics to show just how the concern is working, while in the small store, the manager-owner can carry much of such information in his head, and need spend no time in working it out on paper. This economy is probably carried too far by most small retailers. Perhaps much could be gained by the specialty store manager by borrowing something from the department store manager's thorough-going

manner of getting at the exact facts of the business. But whether this is true or not, the fact remains that the department store spends a lot of money in getting up information that the small one-line retailer is getting along without.

Finally, the department store type of salesmanship is usually weak. There are exceptions and notable ones, but the general rule is poor salesmanship. The specialty store that attempts to be up-to-date differs from department stores markedly in this respect, although both classes of stores would benefit largely if systematic improvement and education of salespeople could be effected. As it is, much of the efficiency of the department store gained by its location, its window displays, its advertising, its thorough and systematic sales plans is lost simply because the salesman fails in his important work with the customer. Not only are opportunities for making sales lost through this failure, but when sales are made, they are often wrongly made. The wrong things are sold and when the right things are sold they are sent out improperly fitted and demonstrated. The result is discomfort, disutility, and dissatisfaction. The retail store whose great social function it is to serve the public or that much of the public that comes to it, fails to perform its service in a creditable way because the employee whose duty it is to represent the store in dealing with the customer doesn't know how his work should be done. Bad retail salesmen are plentiful, but more so in department stores, it seems, than in specialty or one-line stores. The fault is not the salesman's, but rather it is that of the stores in neglecting to improve the human factor, and that of society, in not providing education in its schools for people who enter this line of work.

Bibliography

The Department Store and Its Opportunities for Boys and Young Men. The Vocation Bureau, Boston, 1912.

Butler, E. B. Saleswomen in Mercantile Stores, Ch. IV. Charities Publication Committee, New York, 1912.

Puffer, J. Adams. Vocational Guidance, Ch. XII. Rand, McNally & Company, Chicago, 1913.

Daniels, Wm. Cooke. The Department Store System, Denver, 1900.

Cherington, P. T. Advertising as a Business Force, pp. 158 ff.

Phillips, W. B. How Department Stores Are Carried On. 1900.

Selling Forces. Curtis Publishing Company. pp. 103–132.

Golden Book of the Wanamaker Stores, 1861–1911.

Modern Merchandising, Vol. I.

Wanamaker, John. The Evolution of a Mercantile Business.

Stokes, J. J. Organization of the Department Store.

Basch, J. The Merchandiser in the Department Store.

Modern Merchandising, Vol. V.

Stokes, J. J. The Department Store.

Modern Merchandising, Vol. VIII.

Schneider, J. Department Store Advertising.

U. S. Industrial Commission, Vol. VII, 1900.

Testimonies of Messrs. S. W. Woodward, John Wanamaker, Otto Young and Chalifoux.

Brewer, F. N. Some Features of Department Store Management. *Ann. Am. Acad.* 19:320.

Davis, H. The Department Store at Close Range. *Everybody's,* 17:312.

Dennis, John, Jr. Marshall Field. *Everybody's,* 14:291.

Adams, S. H. The Department Store. *Scribner's Magazine,* 21:4.

The Department Store in the East. *Arena,* 22:321.

Richardson, A. S. The Modern Woman's Paradise. *Woman's Home Companion,* Sept., 1911.

Big vs. Little Store. *Printers' Ink,* April 25, 1912.

Private Department Store Brands vs. Nationally Advertised Brands. *Printers' Ink,* Oct. 31, 1912.

CHAPTER XIII

CHAIN-STORE SYSTEMS

A chain-store system, as the term implies, is an organization composed of a number of retail stores operating under one management. There are many such organizations which have existed for a long time, but during the last thirty years there has been a marked development both in size and number of such concerns. The chain-store system of today is a typically modern factor in the distribution of goods.[1]

Hurd and Zimmerman in *Printers' Ink,* September to December, 1914, estimated that there were more than 2,000 chain-store systems in the United States, and that in these chains there were in excess of 25,000 stores. Boyd's City Dispatch offers to supply lists of chain stores aggregating 10,000 systems. There are no official figures showing the extent of chain-store development. The names of a few of the best known systems in the country are given on the opposite page.

1 Dates of establishment of some of the great chain-store systems:

Great Atlantic & Pacific Tea Co.	1859
F. W. Woolworth Company	1879
Jas. Butler Company	1882
Hanan Shoe Stores	1885
Acme Tea Stores	1887
New York & London Drug Co.	1897
Cannon Stores	1899
United States Cigar Stores	1901
Penney Stores	1901
Duke C. Bowers Stores	1902
United Drug Co.	1903

Chain-Store Systems in the United States

Grocery Chains	Stores
Great Atlantic & Pacific Tea Company, Jersey City	807
Acme Tea Company, Philadelphia	315
James Butler Grocery Company, New York	238
Childs & Company, Camden, N. J.	230
Grand Union Tea Company, Brooklyn	200
Kroger Grocery & Baking Co., Cincinnati	182
M. O'Keefe, Inc., Gardner, Mass.	146
Wm. Butler, Philadelphia	140
Bell Company, Philadelphia	130
Robinsôn & Crawford, Philadelphia	130
National Grocery Company, Jersey City	126
Direct Importing Co., Inc., Boston	125
Thos. Roulston, Brooklyn	121
John T. Connor Co., Boston	110
G. M. Dunlop Co., Philadelphia	106
Five and Ten Cent Stores	
F. W. Woolworth Co.	744
S. H. Kress & Co.	147
C. S. Kresge Co.	124
J. G. McCrory Co.	115
Tobacco and Cigar Stores	
United Cigar Stores [2]	1100
Drug Chains	
Riker-Hegeman Co., New York	105
Louis K. Liggett Co., Boston	52
Owl Drug Company, San Francisco	20
Square Drug Co., Syracuse, N. Y.	20
Marshall Drug Co., Cleveland	15
Shoe Chains	
R. H. Long, Framingham, Mass.	82
W. L. Douglas Shoe Co., Brockton, Mass.	79
Regal Shoe Co., Boston	47
Hanover Shoe Co., New York	52
Florsheim Shoe Co., Chicago	30
Sorosis Shoe Co., Brooklyn	30
Hanan & Son, New York	18
Beck Shoe Co., New York	15
Hat Stores	
Kaufman Bros., New York	40
Truly Warner, New York	24
Irving Hat Co., New York	24
Sarnoff Bros., New York	16

[2] The United Cigar Stores Company of America operates its 1100 stores in nearly 200 cities in the United States. Some of these, however, are owned by companies subsidiary to the United Cigar Stores Company of America, such as the United Cigar Stores of New Jersey, United Cigar Stores of Illinois, and United Cigar Stores of Rhode Island.

In addition to the above, there are chains to be found dealing in confectionery, jewelry, meats, dairy products, liquors, furniture, clothing, hardware, automobiles and automobile supplies, millinery, corsets, flowers, books, etc.

Chain-Store Systems in Europe[3]

Food Stores or Shops	Shops
Lipton's Ltd.	469
Home & Colonial Stores	688
Maypole Dairy Co. Ltd.	835
Shepherd's Ltd.	100
Pearks, Ltd.	200
T. Seymour, Mead & Co. Ltd.	56
United Kingdom Tea Co., Ltd.	25
Lyons & Co., Ltd.	170
Aerated Bread Co. Ltd.	140
Express Dairy Co., Ltd.	103
Eastman's Ltd.	800
British Tea Table Co.	...
Alfred Pearce Tea Shops	...
Pearce & Plenty	...
Kaiser's Kaffee Geschäft, Germany	1000
Drug Stores	
Boot's Chemists	565
Parke's Drug Stores, Ltd.	34
Lewis & Burrows, Ltd.	25
Henry Hodder, Ltd.	17
Thompson & Capper	10
Shoe Shops	
Freeman, Hardy & Willis	460
Lilley & Skinner	75
Public Benefit Boot Co.	120
S. Hilton & Sons	129
Stead & Simpson, Ltd.	235
W. Abbott & Sons, Ltd.	13
W. Abbott & Sons, Ltd., France	7
A. & W. Paterson	42
Greenlees & Sons	165
John Greenlees	12
Tobacco Shops	
Salmon & Gluckstein, Ltd.	139
Alfred Baker & Co., Ltd.	49
Department Stores	
Tietz Department and Dry Goods Stores, Germany	88

Chain-store systems may be classified according to ownership as follows:

3 Except where otherwise specified these are in England.

Retailers' chains
Jobbers' chains
Manufacturers' chains

Retailers' chains have in many cases been formed simply by gradual expansion, the owner beginning with one store and adding others as circumstances permitted. Many retailers have been so successful with their first store that they have established branches, sometimes conducted in co-operation with the parent store and sometimes independently.

In a few noteworthy instances retailers' chains have been formed by the establishment of a corporation with the purpose of acquiring and conducting a number of retail stores under a definite chain-store plan of organization.

In still other cases chains have been formed by the union of several retailers into an organization, usually of corporate form, each retailer taking stock in the company, and in return permitting his store to pass into the new organization. Some of these retailers' co-operative chains have enormous memberships.

The object in view in the organization of retailers' chain-store systems has been largely to reap the profits of increased buying power, of heightened efficiency in advertising, in better handling of credits and collecting, and in more profitable methods in handling and selling merchandise. For many merchants who have acquired or established branch stores, the additional store units have served as a means of investment for surplus funds and as a field for the exercise of exclusive ability not fully taken up in the single institution.

The ability to buy for less than the ordinary retailer can buy, is commonly accepted as the chief advantage of the chain store. In systems where the buying is done for all of the stores from a central office or by organization buyers, it is obvious that their demand for quality commands

the strongest interest of producers and wholesale suppliers. In a competitive market such buyers are usually able to get the lowest possible prices and are able to profit by every possible quantity discount.

Frequently the chain-store buyers pass over the wholesalers and buy direct from producers, in fact, perform their own jobbing functions. In such cases they are usually accorded the prices made to jobbers and, if current reports be true, are sometimes given even lower prices.[4] Producers feel under necessity to make every possible concession for the reason that the buyer for a large chain represents a powerful factor in distribution, one whose future trade is considered worth fighting for, and one who can easily transfer his trade from place to place. The competition for the chain-store business is, therefore, keen.

Some of the chain-store systems carry on their jobbing functions much the same as an ordinary jobbing house. Warehouses are provided, and goods are stored, and delivered to the various stores only upon purchase and charge. Goods charged to any unit store bear a percentage burden of buying and warehousing expense, corresponding in a measure to the margins added by regular jobbers to the costs of their goods when selling to retail dealers. In groceries this margin is said to run from 2½ to 6 per cent of the value of the goods. In other cases the burden of the buying expense is prorated among the stores directly, sometimes in proportion to their sales, sometimes in proportion to their ability to stand the charge.

Jobbers' chains have come into existence in various ways. In some cases, jobbers have been forced to buy out retail stores from certain of their retail debtors to save themselves from loss such as would occur if the store were to go on in the hands of the former owners and managers. A good

4 Hurd & Zimmerman in *Printers' Ink*, Nov. 19, 1914, pp. 64, ff.

many jobbing houses have a number of retail stores that they virtually own and which they are nursing along in the hope of building up the business or until a competent manager can be found who will buy the store. Management of these stores calls for the same methods and practices as are required in other chain systems. In some cases when breaking into new territory, jobbers are forced to acquire stores of their own in order to find local outlets for their goods. Stores already in such localities may not willingly take on new lines, and a jobbers' own store system may be the only means of reaching the consumer.

In still other cases, the jobber may find his trade slipping from him either because of cut-throat competition with other jobbers, or because manufacturers are selling directly to retailers. In the ordinary course of events either of these processes might eliminate the jobber. To save himself and to insure a constant market, his only recourse may be to establish a chain of retail stores to handle his goods. This adaptation of the jobber to new conditions is going still farther in a few instances. Not only are chains of stores acquired but also manufacturing plants, so as to assure both a market and a product to place on the market. Jobbers thus have become both retailers and manufacturers, as well as wholesalers. It seems likely that this integration of distributive processes is likely to go on in several lines, those, particularly, in which the jobbing functions are diminishing in importance.

There are a number of manufacturers' chain-store systems, nearly all of which had their origin in an inability to find a satisfactory market through the regular channels of trade. Among the lines of goods represented in manufacturers' chains, one finds several brands of shoes, confectionery, baked goods, hats, gasoline and kerosene, sewing machines, cash registers, adding machines, typewriters, office

furniture, automobile supplies, corsets, gloves, sporting goods, phonographs, paper novelties, etc. Some of these goods probably could not be marketed through regular retail stores. Others are not so marketed because of dissatisfaction due to any one of several causes, such as competition with other goods on dealers' shelves; price-cutting among dealers on the manufacturer's standardized lines; inability of the average retailer and retail salesman to give intelligent salesmanship to the line; unwillingness of the average retailer to put in a complete line such as the manufacturer considers necessary to give the consumer a fair idea of his goods; and unwillingness or inability of the average retailer to give the additional service sometimes found necessary to make sales stick.

It is probable that scarcely any manufacturer desires to conduct his own distributive system if the service obtained from the regular channels is at all satisfactory. A chain of retail stores ties up a great deal of capital. In some lines it takes several times as much capital to market them, as it does to manufacture them. John H. Hanan, of Hanan & Son, states that it takes three times as much capital to conduct the chain stores as it does to run the factories that supply them.[5] The management of a chain involves grave problems. The chances of failure are high. The profits from retailing are, on the whole, not so great as those from manufacturing, considering both under favorable circumstances. In spite of these draw-backs some of the manufacturers' chains are the best examples of present day efficient chain-store management. It is altogether probable that the future will see many more such organizations.

There is another type of chain-store organization that might properly be discussed under this heading, but which must be omitted here. This is the consumers' co-operative

[5] *Printers' Ink*, Mar. 21, 1912.

chains. Such concerns have not as yet made much progress in this country, but in Europe they are numerous and, according to most reports, very successful. Evolution in Europe seems to be quite definitely in the direction either of privately owned chain-store systems, or consumers' co-operative concerns. In their methods of doing business, the co-operative and the private chain are much the same. An analysis of the methods in the one will serve as a general outline for the other. The competition of these two classes of concerns is in some cases very keen, and it is said that the co-operatives in England, where co-operative distribution is at its best, fear nothing so much as the growth of "the multiple shop," as the private chain store is called there.

The chain-store unit works for the same end as the individually owned retail store — namely, the best possible net returns. To succeed in getting a good net return the chain store usually works for a big volume on a relatively small stock, resulting in a rapid turnover. In this respect some of the chain stores are very successful. In the average city grocery store the stock turns perhaps ten or twelve times per year. In some of the best chain grocery stores, forty turns per year is not unknown. In the average drug store three or four turns per year is considered good, but the most successful drug chain has a turnover of twelve times per year. In a cigar and tobacco store the average is from four to ten turns, while in one of the most successful stores in a well known chain, the stock turns fifty times per year. The syndicate five and ten cent stores average ten to twelve turns per year, while the average for individually owned stores is only from eight to ten.[6]

Chain-store systems, because of their large capital investments, can afford to employ the most efficient executives available even though their salaries must be high. Thus

[6] *Printers' Ink*, Dec. 3, 1914, p. 66 ff.

chain stores are likely to have better executive management and more efficient methods planned for doing the work of the stores than the ordinary individually owned stores. Expert attention is given to such problems as hiring and training employees, writing advertising, preparing window trims, store service, and elimination of leaks and wastes.

Most chain stores, though not all, are noted as price-cutters in well known, standard kinds of merchandise, such as nationally advertised goods, or staple merchandise of unvarying quality. Most of them make cheaper prices the advertised argument for trade in competition with the individually owned stores. An occasional one, such as the Owl Drug Company, emphasizes service to the customer rather than low prices. Many chain stores supplement their cut-price arguments and other advertising features by use of trading stamps, premium plans and other schemes to attract and hold trade.

In the competition of chain stores with individually owned stores there seems to be certain advantages in favor of the former. First, the chain-store system as a rule represents greater buying power, and its buyers are enabled to take advantage of prices that are usually given only to jobbers. Savings thus made are, however, counterbalanced to a certain extent by necessary expenses in redistributing the goods to the individual stores of the system, providing storage and insurance for warehoused goods, paying interest on the money invested in them, and defraying extra cost of handling. As much as possible of this expense is avoided by having goods shipped from the factories to the stores direct, but this method cannot always be carried out advantageously. Second, certain superior economies in accounting, in the delivery of goods, in advertising, and in the granting of credit and making collections seem to be more practicable in chain-store management than in individually owned

stores. Third, the chain-store system with many units scattered widely can to a certain extent eliminate losses due to unsalable goods accumulating in any particular place by having the slow-selling goods moved to other stores where they may sell better. For example, a chain-store system dealing in men's furnishings may find that a certain line of neckwear does not appeal to customers in one community at all, whereas, in another town that same line may prove quite popular. By transferring the goods from the former to the latter place, losses by mark-downs are prevented. The individually owned store has no such opportunity to transfer its goods. What is bought for the store must be sold from it, and if a mistake is made in buying, the only remedy is to sell at a sacrifice.

In competition with individually owned retail stores, if it comes to a desperate conflict, the chain store has a decided advantage. The chain store being a member of a group can concentrate its competition at any point, undersell its individually owned retail store rival, sell below cost indefinitely if it so desires, and make up its deficits caused by such cutthroat methods at that point, by profits made in other stores in other places. Theoretically it can continue this process until it has driven its competitors out of business or cowed them into submission.

The chain-store system has another advantage in competition with the individually owned stores in that it can handle private brands of its own, advertise them, and build up a market for them. In most cases, the small one-store retailer is not in a position to develop a business in private brands. But the standard brands handled by the independent retailer, may be selected and used by chain stores as loss leaders to attract trade, and the independents have no similar method of retaliation. The chain-store system usually has access to supplies of the same kinds of goods as the regular

retailers, but the regular retailers do not have like opportunity to exploit the chain-store products. Therefore, the chain store has unusual opportunity to use the goods handled by the regular retailers as competing weapons.

The large chain-store system with jobber or factory connections is assured of a supply of goods under all circumstances. The ordinary retailer buying in the open market is not always certain to find further supplies when he wants them. In times of severe competition, sources of supply as well as the outlets to the consumers are important points of attack. In respect to supplies jobbers' and manufacturers' chains are obviously much more secure than the ordinary one-store concern.

On the other hand, chain stores suffer certain disadvantages in comparison with individually owned stores. The average cost of doing business in chain stores is apparently lower than in average individually owned stores.[7] There is no question but that the average chain store is more efficiently and economically conducted than a large number of individually owned stores, but this is far from saying that chain-store efficiency and economy compares favorably with the best conducted individually owned retail stores. It seems entirely probable that the best conducted chain stores must fall behind the best conducted individually owned stores in this respect.

The chain-store system can probably never secure the same degree of interest from its local store managers, especially when they work on a salary basis, that the single store receives from its owner. It is much more difficult to maintain the close personal touch with employees that is so necessary to successful store practice in a chain than in a store where employees work under the direct supervision of the owner. The systematic methods of doing the work of the

[7] *Printers' Ink*, Dec. 17, 1914, p. 20 ff.

chain store, so thoroughly worked out by the executives, may easily pass over the dead-line of red tape and become a burden rather than a productive help. The difficulty of finding efficient store managers who will work for chain systems is admitted by every chain-store concern. Though the routine work may be, and usually is done by low-priced help, the cost for efficient managers, supervisors, and executives is high, and as competition grows keener, the cost for both classes of help must rise accordingly.

The organization of a chain store must be fitted to its purpose. Great attention must be given to details, some of which can be cared for from the central headquarters, while others must be arranged locally. The organization must provide for the strictest authority and for the most careful distribution of duty while making full allowance for all local demands. Thus the chain-store system must be something more than a machine in order to make good. It must be a machine with an intelligent mind active in every part. Initiative is in demand at every point. In all of these respects the individually owned store possesses natural advantages over the chain which, if utilized, would go far toward helping it to hold its own in competition with the chain.

In addition to the regular organization found within each store of a chain — an organization very similar to that of any good retail store — and in addition to the corporate organization with its financial, executive and legislative departments, most chain-store systems make special provision for the following activities — in some cases by the establishment of special departments:

1. Selecting and acquiring good store locations, making purchases, arranging rentals, disposing of unused property, attending to repairs, renewals, insurance, etc.

2. Equipping the stores with furniture and fixtures.

3. Supplying the stores with merchandise.

4. Advertising the stores and their merchandise.

5. Planning window decorations and store displays.

6. Employing and training help for the stores, making promotions, transfers, and so on.

7. Devising sales plans and ideas.

8. When trading stamps or premium plans are used, arranging the details in a proper manner.

9. Keeping accounts and statistics of the system.

10. Auditing.

In the case of some chain-store concerns, some of the functions named above are carried on by subsidiary corporations whose stock is owned by the parent company. For example, in the United Cigar Stores Company, the purchase and rental of sites for stores, the repairs, improvements, and sub-letting, is all cared for by a corporation known as the United Merchants Realty and Improvement Company; while the window displays for all of the stores and agencies are prepared by the United Window Display Company. Agencies of the United Cigar Stores Company are cared for by the United Cigar Stores Agencies Company. The company in charge of the real estate and leases has proved a profitable part of the concern, showing earnings of $650,000 to $700,000 annually.[8] These profits accrue from favorable purchases and sales, leasing large buildings only parts of which are used as cigar stores, the remainders being sub-let to other tenants. The premium department is conducted by another corporation entirely separate from the United Cigar Stores known as the United Profit Sharing Corporation.

The store equipment department in chain-store concerns apportions the space for store use and provides proper fixtures, often the same for all stores in the chain. The win-

[8] From "Weekly Market Letter," Apr. 15, 1915, issued by Jones & Baker, Chicago. See also, *Printers' Ink,* Nov. 12, 1914, p. 58 ff.

dow display department works up the ideas and supplies the materials for making attractive window displays.

The reporting system developed by the accounting and statistics departments of large chain-store systems, such as the United Cigar Stores, or the Regal Shoe Company, is wonderfully well adapted to indicate the exact condition of the business in each store almost at any given moment.

Daily reports showing total sales and sales by departments on lines handled, are required from every store in most chain systems. The daily report usually includes orders for new stock to replenish lines sold out. Some concerns require that all sales slips and price tags be sent to the central office along with the daily report sheet. Cash taken in by the store is usually deposited daily in a local bank and the certificate of deposit is mailed at once to the treasurer of the company. From these daily reports the executives of the company may learn definitely what is the status of each store, its daily sales, what lines are selling best, what lines poorest, what each salesman is doing, what profits are being made, and what stock is left on hand. The slightest change in custom or demand may be noted almost instantly.

Weekly summaries are sometimes required from the local managers, and weekly statements from the individual salespeople in the form of claims for bonuses or prizes, and so on. These reports serve as checks on the daily reports. In most chain stores, inventories are taken frequently, generally once per month. In some cases these inventories are taken at regular times, in others only on special call from headquarters. The reports of stock on hand in the inventories serve as another check on the operations of each store. The daily reports as summarized and carried out in the accounting department show exactly what goods have been ordered and what goods sold, and, therefore, what goods should remain. The inventory report shows whether the

daily reports were made correctly or not, or whether any stock has been taken from the store in any way without proper accounting.

Every possible precaution is taken to prevent and to discover dishonesty if any should occur. The reports already named serve this purpose, and in addition there is the work of the traveling auditors, the supervision by district managers, and the work by special investigators, many of whom work in much the same way as detectives. The employee of a chain store knows that if he works hard and successfully, he will be well rewarded, but that he is being watched constantly for crookedness.

Not only must each store and employee make a report, but a certain standard of results is set before each. Before establishing any store, an estimate is made of its probable business based upon the number and class of passers-by, their probable consuming capacity, their habits, and the amount and kind of competition. This estimate is set before the store as its first year's standard, and the manager of the store is held responsible for getting at least that amount of business. This is known as the store's quota. After the first year this quota is determined upon the basis of the previous years' experience and the possibilities of increasing the trade. The quota for the store may include not only a figure to represent the total sales that must be aimed at, but also the amount of profits that must be gained. This means that the manager of the store must give his attention, not only to pushing sales generally, but must give special attention to pushing the sales of goods that show the largest profits. The sales quota may go still further and set standards for the sales in various lines, or in various parts of the store. For example, in the Regal Shoe Stores there is said to be a total sales quota, a total profits quota, and quotas for

each department of goods handled. The sale of shoe trees should average one pair to every four pair of shoes sold, and sales of shoe polish must average one bottle to every three pairs of shoes sold.

Not only are quotas established for every store but also for every salesman. The quota is the standard for the salesman's accomplishment. If he cannot make sales corresponding to the quota set for him, he must give way to someone who can.

While every attempt is made to secure the accomplishment of what has previously been determined as possible, and employees are held strictly to account for this, usually several incentives are adopted to get every man to do his best. In the first place, fairly good salaries are paid. On the average, it seems, although the writer relies only on his own observation for this, that the salaries for the same classes of labor average somewhat higher in chain stores than in individual stores. The chain store system is in many cases able to use a lower grade of labor, more young and inexperienced people, for example, than the ordinary stores. The systematic division of labor in the majority of chain stores permits this. Thus, while the chain store pays more for this class of labor than other stores, the total pay-roll for the chain store may not be as high as in the other stores doing an equal amount of business. It seems quite certain that chain stores must pay good salaries to all of their store managers and other executive officers. Their incomes must compare favorably with what they could earn as independent store managers, or the company could not keep them in employ nor hold their loyalty.

Many chain stores go further and give their employees bonuses or premiums for accomplishment above the standard or quota. Some concerns never grant regular salary in-

creases. All increases in earnings must come in the form of bonuses or premiums. Prize-giving systems are common. In attempting to get everybody interested in doing more than before, store is set in competition with store, man against man. Every year, each store must do better than it did the preceding year. Every man is encouraged to make his record for the coming year better than for the year preceding. Prizes and premiums are offered for successes in making higher records. In the most successful chain stores these bonus and prize-giving systems are so extended as to give to every employee some chance to earn a prize.

To stimulate these contests and increase sales efficiency, weekly bulletins or house organs giving the status of every store and every employee in the contests are published and sent to all of the stores. Along with this information, the management also conveys inspiration and encouragement by means of lively, interesting addresses, bulletins, and printed articles, and practical instruction through educational letters and sales manuals. Every attempt is made to encourage greater endeavor.

There is a maxim among some chain-store system managers that runs as follows: "As is the manager so is the local store." Special effort is made to get "live wires" for such positions, and much is done to keep them "live," after they have been given positions at the heads of stores. The manager of a store generally shares substantially in every prize or bonus that comes to the store. He is often given or required to hold a partner's share in the store, or stock ownership. In the company's records the store in which he is employed is named after him. He is taken into the company's confidence, and his advice and suggestions are sought. All of these things tend to make the store manager a very loyal employee of the chain-store system. It is recognized that here is the weakest element in chain-store manage-

ment — a hired employee rather than an owner at the head of a store.

If one may judge from the development of chain stores during the past ten years, it is quite certain that the next decade will see many new chains come into existence. The struggle of manufacturers and jobbers for markets are forcing them into developing chain-store systems, and as long as buying in large quantities for cash secures lower prices, competition among dealers will tend to draw groups of them together, either in the form of organizations under single managers, or in the form of co-operative buying concerns, in order to command the advantage of quantity prices. As the number of such combinations increases, the special advantages will proportionately diminish, or, to put it in another way, as the number of combinations seeking special prices on the goods they buy increases, the difficulty in getting these prices will also increase, hence, it will become necessary to increase the size of the aggregations either by expansion over more territory, or by consolidation of existing chains in order to get better prices than other concerns.

That this movement to consolidate existing chains has already begun is evidenced by several significant events of recent date. For example, the F. W. Woolworth Company absorbed the S. H. Knox five and ten cent stores. The United Cigar Stores owners acquired a controlling interest in the Riker-Hegeman Co., in the latter part of 1913. The H. G. Gill stores have been combined with the Maurer & Remley Company of St. Louis, and the latter with the Kroger Grocery & Baking Company, and press rumors indicate that many other consolidations are being proposed. It seems not at all unlikely that vast combinations will some day occupy the field of distribution of goods, or at least certain parts of it, in much the same manner that many large concerns now control certain parts of production.

Bibliography

A series of fourteen articles on chain stores appeared in *Printers' Ink* beginning in the September 10, 1914, issue, and ending December 24, 1914, written by Charles W. Hurd and M. Zimmerman, members of the *Printers' Ink* staff. This series of articles supplies the best published dissertation on chain-store systems extant.

From One Store to Six Hundred, the Story of the Woolworth Stores. *Hardware Dealers' Magazine,* Sept., 1912, and Dec., 1912.

Woolworth's Tower of Nickels and Dimes. *Hearst's Magazine,* Oct., 1912.

History and Secrets of the Chain Store Grocery Business. *Grocers' Magazine,* 1911.

Money Sticking Out, Story of B. H. Kroger. *McClure's,* Jan., 1914.

Several Articles on Chain Stores by R. A. Bruce. *Printers' Ink,* July 10, 17, 31, and Aug. 7, 1913.

Getting Maximum Sales Out of Chain Store System. *Printers' Ink,* Aug. 1, 1912.

An Account of the Maypole Dairy Company of England in "A Better Day's Profits." Published by Burroughs Adding Machine Co., Detroit.

Hanan Chain Stores. *Printers' Ink,* March 21, 1912.

United Cigar Stores. *Printers' Ink,* several articles during November and December, 1911.

CHAPTER XIV

THE MAIL ORDER HOUSE

The development of the mail order business is one of the most remarkable commercial events of the last fifty years. While goods have been ordered by mail ever since mails were first started, the retail establishment depending for business entirely upon mail orders, or the department of a retail store set up to handle nothing but business by mail, is a very modern thing.

The first of the great mail order concerns was established in Chicago by A. Montgomery Ward in 1872. The first store room was a hay loft over a stable on East Kinzie Street. Mr. Ward, who died December 7, 1913, had been a clerk in retail stores in Chicago and had also had some experience as a traveling salesman for a Chicago wholesale house before going into the mail order business. Soon after starting, he associated with himself his brother-in-law, George R. Thorne. These two men and their families have continued down to the present time to conduct the business known as Montgomery Ward and Company.

The original aim of the business was to serve as a supply house for the farmers' granges, local branches of a secret society known as the Patrons of Husbandry, which spread very rapidly in the latter 60's and early 70's. The grange movement had as one of its chief objects, co-operative buying of all classes of goods for its members. While the organization is still strong in several parts of the country, its co-operative buying did not progress successfully; and as that

feature fell off, Montgomery Ward and Co. moved into the general mail order field. The concern was incorporated in 1882 and again in 1913. Its sales amounted in 1913 to nearly $40,000,000 and in 1914 to $41,042,486.

Other concerns followed the methods of Montgomery Ward, and at the present time there are hundreds of mail order concerns, most of which, however, are doing but a small amount of business. The business of but one concern exceeds that of Montgomery Ward and Co., namely, that of Sears, Roebuck and Co. This concern's gross sales amounted to $95,500,000 in 1913 and to $101,121,654 in 1914.

Sears, Roebuck and Co. has the most remarkable history of all the mail order houses. Mr. Sears, the founder, was at one time a station agent in a small town in northern Minnesota. A mail order watch concern once sent a watch to be delivered C. O. D. to some customer in the town. The customer could not be found, and Mr. Sears notified the company. They replied by urging him to sell the watch to someone else. Mr. Sears did so at a profit of $2. This profitable venture led him to order other watches and to sell them at a similar profit. Later he left the employ of the railway company and started a mail order watch and jewelery concern in Minneapolis, which was moved to Chicago and after a few years sold out at a good figure. Another mail order house was started in Minneapolis under the name of Sears and Roebuck. The new business grew, but at the end of five years it was thought best to move this establishment to Chicago also. This was done and the concern was incorporated under the laws of Illinois in 1895. This organization continued until 1906. Then the concern underwent some sort of a crisis. A reorganization was effected June 16, 1906, under the leadership of Julius Rosenwald, a former employee and now president of the concern, and a

number of his friends. Mr. Sears sold out his interest and retired from the business, although his name was retained in the list of the board of directors to keep the confidence of the public in the new management. The new corporation was formed under New York State laws. Its capitalization at that time was placed at $10,000,000 in the form of preferred stock, and $30,000,000 common stock. Since 1906 additions have been made to the common stock and some of the preferred shares have been retired.[1]

Other giant concerns in the mail order field are Timothy Eaton and Co. in Canada, with stores at Winnipeg and Toronto, the National Cloak and Suit Company in New York, John M. Smyth, Jr. and Co., Harris Brothers Co., formerly the Chicago House Wrecking Company, the Chicago Mail Order Company, Bellas, Hess & Company, Chas. Williams' Stores, Bedell's, Standard Mail Order Company, and the Larkin Company. In addition to these there are a considerable number of credit mail order concerns which sell goods on the instalment plan, and finally a large number of regular retail stores which conduct important mail order departments. It should be added in passing that the mail order department in department stores has not been uniformly successful. Several large stores that formerly issued mail order catalogs have discontinued, and there are several well known merchandising men, such as W. R. Hotchkin, J. F. Beale, and P. V. Bunn, who have expressed lack of faith in a department store mail order department.

The amount of mail order business in this country direct with consumers has been variously estimated at from $250,000,000 to $500,000,000 per year. If one includes all mail order business, the transactions of regular retail stores through the mails as well as exclusive mail order house business, the latter figure is probably nearer right. Estimating

[1] On May 1, 1915 the capitalization of Sears, Roebuck & Co. was as follows: Preferred stock $8,000,000; common stock $60,000,000.

the total consumption of goods purchased through retail stores to be in the neighborhood of $12,500,000,000, or $125 per capita per year, it appears that the mail order business equals about 4 per cent of the total retail business. But this percentage hardly represents what is taking place by way of competition between mail order concerns and the regular retail stores; for the mail order business is largely, though not entirely, transacted with customers in country districts and small towns. Some estimates place the mail order business at as high a figure as 20 per cent of the total trade of this part of our population.

To indicate the extent of the mail order business, the following suggestive statements drawn from catalogs of the mail order houses will prove helpful. Sears, Roebuck and Company claim to have over 6,000,000 regular re-ordering customers. In 1912 this concern is said to have sold over 5,000,000 pairs of shoes at selling prices amounting to over $7,000,000. Advertising cream separators, its spring catalog of 1913 says "about 350,000 in use," while in the fall of 1913, the advertisements state that there are "over 380,000 in use." Of one type of buggy handled the claim is made "over 49,000 in use." Again "The entire output of over a hundred furniture factories is taken." Montgomery Ward and Company claims to have 3,000,000 re-ordering customers and other concerns claim as high as a million. Allowing for duplications, there are still probably at least 10,000,000 people who order some goods every year from mail order concerns.

No other country has developed the mail order method of distribution to consumers so extensively as the United States. It is not likely that any other country could possibly have had a similar development, at least in extent or volume of business and number of customers. American life during the last fifty years has supplied a number of conditions es-

pecially favorable for the growth of this method of distribution.

The typical American farmer, for example, lives an isolated life. His home, located on his 40 to 160 acre farm, is distant, not only from town, but also from neighbors. Farmers in other countries live in villages and are thus closely associated with each other, as well as with the business men and store or shop-keepers of the village. The American farmer has developed an independence of spirit that is at once a strength and a weakness. Self-reliance and readiness to act on his own initiative on the one hand is accompanied by a corresponding tendency to feel little or no interest in the upbuilding of the community or in anything but his own farm and family. Unlike the farmer-villager common in all of the old countries, he feels no interest in his nearest town, no duty to support it against all the rest of the world, and may even suspect his townsmen of motives injurious to his rights of property. This indifference and even antagonism between town and country is common in America. Under these circumstances it is not surprising that a proposal to do business with a distant store or mail order house meets with success, even if the profit from the transaction is no greater than could be had nearer home. The farmer is as ready to trade with one as the other.

Another cause of the recent rapid progress of the mail order business is the tremendous increase in circulation of popular periodical literature loaded with advertising. Such literature has had several effects. The reading matter in the form of news, fiction, special columns, and even the illustrations, have pointed out the means to a higher or costlier standard of living. Both reading matter and advertising have shown the way to greater variety in consumption, and have helped to create new wants in the minds of the people. The advertising has indicated the way in which those wants

could be satisfied, and the method has often been to order by mail from a distant concern. The countryman's freedom from any feeling of obligation to his home-town merchants, already referred to, and his self-reliance and initiative make it easy for him " to take a chance " at sending his money to a distant town.

The increased earning power and consequent increased average wealth of large classes of Americans in the country districts and small towns have promoted the tendency to emulate classes of society thought to be " higher." Such emulation has always meant the expenditure of more money for the things used conspicuously, such as clothing, carriages, automobiles, horses, furniture, house furnishings, and so on. Fashion now finds expression among classes of people who have heretofore never felt its appeal. The desire of the American citizen " to be as good as the best " too often results in nothing but consumption of such goods as it is believed " the best " use. Fashion, emulation, and desire for variety, therefore, cause new classes coming into economic independence to seek outlets for their spending power. For these, in their earlier stages at least, the mail order house is the means to the desired end. The goods thus obtained are distinguished by being " different " from anything in the home village, and by having come from that region of mystic charm, the city. In accordance with their advertised descriptions, such goods are " the latest and most approved by the best classes."

The retail merchants of the smaller towns have in many cases been unable to meet successfully the growth of the progressing demands of their customers. Often the customers of a store may have transferred a large part of their trade to mail order concerns long before the merchant learns anything about it. The work of retailing in a small community and a small store is largely a work of countless details,

and it is easy to overlook the general tendencies of demand and to get into a habit or custom of doing routine things in the same old way. Customers, in some cases, actually grow away from the store that stands still and transacts business in the same way with the same kinds and qualities of goods, trying to get the same profit margins, year after year. It is significant that where the merchants are most active and progressive, the mail order business is usually unimportant.

Advertising has made great strides as an art useful in promoting sales during the last score of years, but in no business has it reached the state of perfection found in the larger mail order houses. This advertising has in many cases been more powerful than the personal salesmanship and actual display of goods in local retail stores.

Finally, the mail order houses have used as their principal argument, a price lower than that asked in regular retail stores. The mail order house catalog of ten years ago was a mass of price comparisons. An attempt was made to show for almost every article that it would cost so much more at the regular stores than at the mail order house. Price comparisons are not now so frequently made directly. The suggestion is, however, made in even more effective ways, though more indirectly, that the mail order method of purchasing is one of great economies.

The independence and lack of community spirit of the American countryman due largely to his isolated manner of living, the general circulation of periodical literature among all classes of people, the increased earning power of many classes, the rising standards of living, the backwardness of many small-town merchants, the power of mail order advertising to create demands for mail order house goods, and the cheaper price argument, are, it seems to the writer, the chief causes of the mail order business development.

As already suggested, the mail order house sells its goods through advertising. The mediums employed include letters, circulars, newspaper or magazine advertising, price lists, and catalogs. The catalog and the advertisement in the popular periodicals are the ones most commonly and most successfully used. Every effort is made to make these as effective as possible. The work of the advertising man in a mail order house is second in importance to no other. In general, the advertisement of an article either in a paper or in a catalog must catch the reader's attention and interest at the first glance, and the description must be such as to make the reader see, feel, and appreciate the qualities, as if the goods were already within reach. The reader is made to feel that there is nothing to do but to fill out the order blank and send the money to the mail order house in order to consummate the enjoyment or satisfaction anticipated. No wonder the mail order house catalogs are read by thousands of families more than any other book. They are interestingly written in language carefully calculated to attract the attention and stimulate the desires of such families. They bear every mark of the best popular literature in that their use of words is picturesque, the ideas are clearly expressed, the terms used are all within the average person's grasp, and, above all, they tell the intimate things that people want to know — the qualities of goods, what other people are using, the chances to economize, what is necessary in order to outshine other people, and so on. These are material things, and the material things of life influence all classes. The mail order catalog is to many country or small town consumers what the department store and the brilliantly lighted shopping district are to the city dweller.

In the larger mail order houses the handling of the merchandise and the filling of orders is reduced to great effi-

ciency. We may take, as an illustration, the system followed in one of the largest of these concerns.

Practically all of the orders come to the house through the mails. The mails come to the concern in truck loads four times a day. In the largest concern of the kind, 90,000 pieces of mail per day is an average amount. The first step is the separation of the postal cards and other matter from the sealed letters. The next is the opening of the sealed letters by power-operated, letter-opening machines which are able to handle 10,000 to 12,000 letters per hour per machine. The contents of the letters are next examined and another classification is made. All letters containing no orders for goods, but seeking or giving information of any kind are turned over to the correspondence departments. Letters containing orders for goods on time, or for C. O. D. shipment are sent to the credit department, and letters containing orders for goods accompanied by payment are sent to the auditing department. The method of handling credit orders will be described later.

The orders going to the auditing department are carefully checked as to descriptions and prices, and the total of the order checked with the amount of money sent. Record is made of the amount of money received, an invoice number is assigned to the order, the money is turned over for entry and deposit, and the order is sent on to the entry department. Here the order tickets are made out that are to go to the merchandise departments. One order ticket is made out for each merchandise department represented in the customer's order. A complete record is made of the order for the mail-order house files and indexed so as to make it easy to locate at any time. Next, the order tickets are sent to the routing department where specialists on routing and transportation fill in instructions as to the methods

of shipping and packing, and attach the address labels for use in the packing department. This completes the office work in connection with an order.

The order tickets, properly filled out with instructions as to packing, shipping, and so on together with the address labels are next sent direct to the proper merchandise departments. The manager of the merchandise department receives the order ticket addressed to him, has it filled by one of his assistants, and then sends the goods and the order tickets to the assembling and packing room. If the original order called for goods from, say, four of the concern's merchandise departments, each would receive its order ticket, and the goods would be received from each department, assembled into one parcel in the packing department and then checked to see that nothing had been omitted. After packing, the address labels are affixed and the parcel is shipped to its destination. All together, an average mixed order for goods passes through from fifty-five to sixty hands from the time it is received until the goods are shipped.

Recently an innovation has been adopted in the delivery of goods in cities of from 3,000 population and up. In such places the cost of drayage for freight from the station to the homes of customers has often been so much as to deter ordering goods. Under the new plan now followed by the largest mail order houses, sometimes in co-operation with each other, arrangements are made with some local drayman to receive all freight from the mail order houses in his name as if he were the customer and thereby receive the lowest freight rates accorded for quantities. The drayman is then required to make deliveries to the homes of the customers and to charge the latter a pro rata share of the cheaper freight rate, plus a delivery charge based on a rate fixed by contract between the drayman and the company, always somewhat less than the regular dray charge would be. In

this way the transportation charges, both freight and drayage, are considerably reduced, especially for small parcels that would not ordinarily be entitled to the lowest rates.

A number of mail order houses have always done a credit business, but some of the largest have from the first done a cash business exclusively. Recently some of these cash houses have established credit departments for certain classes of customers. It has been found that certain kinds of goods, such as pianos, cream separators, and other expensive goods, do not sell readily on the cash in advance basis. The amount of cash required is more than many users of such goods can pay down at one time. Where credit is granted, however, every precaution is taken to secure payments when due. The credit manager of such a concern is one upon whom great responsibility rests for he must find out all about his credit customer's ability to pay by means that will not antagonize him. Seemingly, from the point of view of the customer, credit is obtained very easily. Really the whole financial history of the customer is pretty well known to the credit manager before he affixes his O. K. to the order. This done, however, the order passes back into the office channels already described, just the same as an order accompanied by cash. When payments fall due, the mail order credit department system takes care that the customer receives due notice, and if for any reason he does not respond as he should the collection machinery of the concern is set to work to get the amount due. As progressive parts of this system, he may get, at first, a mere statement of the amount due; second, a letter calling his attention to the amount due; third, a letter urging payment or an immediate reply giving reasons for failure; fourth, a threat to begin legal action if pay is not forthcoming at once; and fifth, if the company has received no satisfactory response, the claim is placed in the hands of the local attorney with instructions

to secure the money without delay in any possible way. The losses due to bad debts in the best managed mail-order concerns are usually a very small percentage of the total sales. By exercising care in the granting of credit, and by pushing the debtor for payment promptly when due, the collection difficulties are reduced to a minimum. One concern that sold by mail about 4,000 pianos in two years, had to use legal force in making collections in only two cases.

Ranking with the work of the advertising department in importance to the firm, stands the buying of the merchandise. In order to do business with the public it is necessary not only to have able men prepare the catalogs and other material describing the goods but also to have buyers who are able to get bargains worth talking about.

Every merchandise department has its chief who is the buyer. His qualifications for his work are very important. He must know thoroughly the classes of goods his department is to carry. He must be familiar with their qualities, comparative values, and styles, and know where such goods can be obtained, how they are made, the materials of their construction, costs of making, market tendencies, and so on. He must be shrewd in bargaining, cool and quick in judgment, and sure in his reasonings. His work commands a salary of from $2,500 up to $25,000 and even more per year.

The mail order house of today that succeeds best is the one that has either plenty of cash, or very good credit. One of the fundamental conditions of success in the mail order business is ready money to buy with and plenty of it. The buyer in a large concern has but few restrictions placed upon him as to what, when, or how much he shall buy, or how much he shall pay. He is assumed to be a specialist in his line and his judgment is not to be questioned. The only injunction that hangs constantly over his head is "make good." Whatever he does he must show a good net profit

in his department at the end of the season. If he fails to do so, and can give no good reason for the failure, he loses his job. Such changes in the personnel of mail order buyers is not at all infrequent, and the executives of large mail order concerns are constantly scouring the country with sharp eyes to locate the ablest buyers. Whenever one is located, he is secured at once if possible.

With these conditions in mind, the buyer sets out to buy goods at the lowest possible prices and to sell them at the highest possible figures. The standards of the concern as to quality of goods must be maintained as closely as possible. The prices at which the goods are to be sold can never be more than those obtained by most retail stores, especially in well-known standard goods. How much below the regular prices the mail order house must mark its goods is a problem. Such prices must be low enough to attract trade but not any lower than is necessary to this end. The upper limits being fixed thus by general retail market conditions, the greater part of the buyer's work consists in trying to buy his goods at lower and lower prices, or at least to get them at lower prices than anyone else.

The mail order house with plenty of cash at its command and an outlet for large volumes of goods, is in a position to get inside prices — if any one can get them. The inside price may take either of two forms, an unusually large discount for cash, or an unusually low quantity price. Sometimes when immediate cash is not an object to a supplier, the buyer may succeed in getting his bills dated forward for a considerable length of time, thus getting the use of the funds for the house for a longer time before paying for the supplies.

The buyer of a mail order house with plenty of cash at his disposal watches for bargains the country over. A manufacturer who has overstocked himself with his product

and does not see any immediate means of liquidating, or a manufacturer in need of ready cash whose credit is none too good at the banks, or a manufacturer in a line that has only a seasonal demand followed by periods of dullness, or a manufacturer who has had trouble in marketing his goods — these classes of producers are likely to be visited by mail order buyers. Large orders and cash in hand will be offered if the prices are made low; and the result is that many such transactions are made upon very favorable terms. Rarely do suppliers succeed in getting fancy profits when dealing with such buyers.

One of the most potent factors in modern mail order merchandising is the guarantee. One concern prints in large type on the outside of its cover, "We guarantee absolute satisfaction. Promptly return to us, at our expense, any unsatisfactory purchase. We will then either exchange it for what you want, or return the full amount you have paid, together with transportation charges." This is an unqualified guarantee. It has no strings attached to it. Some people undoubtedly take advantage of this guarantee and make unreasonable demands, but the amount that is lost in this way is more than recovered by the gains in trade with the timid who might not purchase at all, if it were not for this clear-cut statement.

A guarantee of this kind issued by a large house has a peculiar psychological effect. It not only promotes confidence in the statements made in the catalog, but it also promotes confidence in the goods themselves, even after they have come to the customer. The way this principle works can best be seen in the case of some concerns that attach guarantee tags to all goods sent out. This tag attached to an article when it finds its way into the customer's hands is equivalent to an assertion made in a positive way that the article is good. This assertion helps to overpower any

negation or criticism that might otherwise tend to form in the customer's mind. The guarantee, therefore, actually tends to prevent returns and exchanges rather than to increase them.

Truthfulness of advertising is another important factor in the long run. Because of slight misrepresentations in the catalogs or other advertising matter many concerns never receive a second order from customers. Readiness of the firm to back up every statement made is the first principle in successful merchandising not only in the mail order business but in every other retail business as well. It seems that in this regard the standards of mail order houses have risen considerably during the last few years. Even the ordinary expressions of selling talk have been toned down considerably. It is probable that any misrepresentations which occur in the advertising matter of most of the large houses, at least, are due to error rather than policy. It would be strange if some errors did not creep into the descriptions of merchandise, when these run up into the tens of thousands in a single catalog.

It is of interest to note the character of the work required and done in the correspondence departments of mail order houses. Here again are found high-salaried people. In writing to customers or others great care and judgment must be exercised. Questions must be answered precisely, clearly, and tactfully. All classes of people must be corresponded with. What is put down on paper must be both readable and interesting from the standpoint of the person who receives the letter, whether that person be a day laborer in a factory, a farmer, a ranchman, a housewife, or a school boy. The reader of the letter must be put at ease. Confidence must be restored in cases of complaint, or built up in case of inquiry. " Write letters, or orders to us, in any way, on any piece of paper, and in any language. We can read

and correspond with you in your own tongue. Don't be afraid you will make a mistake. We will readily understand what you want." Such is the statement in one catalog. To adapt the work of the correspondence department to all of such needs requires both high grade intelligence and art.

In a large, modern mail order house one finds a great variety of devices to make the handling of orders and goods efficient. Letters are opened by machine, orders and communications are sent to departments in pneumatic tubes, parcels and loose goods are conveyed from upper to lower floors in gravity conveyors, and from one part of the building to others by endless belt conveyors. Orders are filled by people who travel almost on the run all day long. Experiments have been made in the use of roller skates in the order filling and stock room departments. Packing has been reduced almost to an exact science. Wherever a machine can do the work, one is used. Human labor is classified and departmentized. New employees are taught how to do their work most effectively. Standards of performance are set and employees must come up to these standards. Responsible positions pay high salaries, but the system is so devised that the number of such positions is few compared to the total. The majority of employees need only to be active, alert, and accurate in their movements. Everything is taken care of by definite instruction. For this reason a very large number of such routine positions are filled by young people, boys and girls below twenty years of age, working at low wages.

Looking at the business from the social standpoint, one might wonder what becomes of all of these young people as they grow older and must have higher paying situations in order to meet the higher costs of adult life. Certainly, only a small proportion can ever hope to occupy the better paying

positions in their respective firms. One might also question what effect their experience in such highly specialized and subdivided routine work has on their chances for getting more lucrative employment elsewhere. Whatever the answers to these questions may be, it must be asserted that the mail order business represents one of the highest forms of corporate efficiency. Every item is turned to account in the production of profit.

This brings us to the final point. What are the costs of doing a mail order business? The following is a schedule of the percentages of each of the main expense items based on sales for a specialty mail order house in 1913:

Expense Item	Percentage of Sales
Rent	1.8
Salaries	4.6
Advertising	3.2
Heat and light	0.9
Delivery	4.3
Supplies	2.3
Insurance and taxes	0.7
General expenses	2.4
Depreciation and shrinkage	0.6
Bad debts	1.6
Total	22.4

Two items in the list are out of the ordinary, namely, advertising and delivery. Advertising averages from 6 to 10 per cent of sales in most concerns, and delivery is an item that appears only for concerns that prepay transportation charges to consumers. The illustration is taken from a company that does very little general advertising. Its business is obtained by correspondence, using select mailing lists, and delivery charges are prepaid.

In testimony given by Wm. C. Thorne, Vice President of Montgomery Ward and Company before the Parcels Posts sub-committee of the Senate Committee on Post Offices and Post Roads, January 3, 1912, he stated that "the cost

of doing business in a catalog house runs from 16 to 25 per cent of sales." Among figures gathered by the writer directly from mail order houses, the range is from 16 to 26 per cent of sales. One was given as 16 per cent of sales, another as 18½ per cent, another at 20 per cent; one at 22 per cent; two at 24 per cent; two at 25 per cent, and one at 26 per cent. The average appears to be about 22 per cent. Considering the volume of business transacted, 20 to 22 per cent of sales would probably be fairly representative of the average cost at which the mail order business of this country is transacted by exclusive mail order houses. Mail order departments in regular retail stores seem to run somewhat higher in most cases. These figures must be considered merely as indications or estimates at best. While they represent the costs found in some of the largest concerns in the country, the number of firms included is too small to enable one to form an accurate idea.

In conclusion, mail order houses claim, and undoubtedly do have, certain advantages in many cases over the small local stores that are most affected by the mail order competition.

First. The art of advertising is carried very much farther by the successful mail order concern than by the small town store. In fact, even where prices for the same goods are the same, the advertising is sometimes of such character as to pull trade away from the local dealer in spite of all of the advantages the latter has in the way of personal salesmanship and of allowing the customer to examine the goods before buying. The vivid descriptions of goods and the suggestions of enjoyment or satisfaction stirred up in anticipation of ownership, not always literally truthful with all advertisers, are factors in the modern mail order catalog that must be reckoned with.

Second. The large mail order house is enabled to offer

through its catalog a very wide variety of goods, a great factor of success in competing with small town merchants.

Third. Certain classes of people, in this country at least, are ready customers of mail order houses whenever they are in the market for goods. People who feel no interest in the up-building of the trade of a community, those who have actually, or through misunderstanding, felt themselves mistreated by their home merchants in any way, or those who desire the distinctive thing, the merchandise from the distant place of different appearance or qualities, but who cannot afford to go in person to the distant town to buy; and those who are trying to make their funds go as far as possible and to whom the cut prices often advertised mean a great deal — these classes form, perhaps, in the main, the bulk of mail order house patrons.

Fourth. The large mail order house through its financial power and ability to market immense quantities of goods is able, without doubt, to buy much of its goods at inside prices, and such prices are often so low that the mail order house may undersell its competitors and still make a handsome profit. In other words, the mail order house is frequently favored by manufacturers with an unusual quantity price.

The economic disadvantages of the mail order method of distribution may be summarized as follows: A constant and high advertising expense is necessary to keep trade coming in; a large number of customers never send in more than one order; and new fields of customers must be cultivated constantly. The transportation item from the mail order houses to customers is frequently overlooked in discussions of this kind, but constitutes an expense that is disproportionately large. When one adds up all expenses properly chargeable and incident to dealing with a mail order concern it is open to question whether the mail order method

of distribution is more economical than the older jobber-retailer-to-consumer method.

That this fact is one that bothers the mail order house managers is made evident by the attempts to reduce the transportation expense on the packages and parcels as they are sent to the customers by establishing branch houses or redistributing points. Montgomery Ward and Company has such branch warehouses at New York, Kansas City, Portland, Oregon, and Fort Worth, Texas. Sears, Roebuck and Company likewise has three or four branch warehouses, while certain classes of goods such as stoves are distributed directly to consumers from a dozen or more points. The National Cloak and Suit Company combines all the shipments for a week or shorter period to some central point in a section and ships them by freight to an agent located in this place. The agent opens up the freight boxes and reships the contents by parcels post, the packages for individual customers being already wrapped, stamped and addressed to their proper destinations. By these means some savings are effected in mail order distribution.

CHAPTER XV

PRICE-MAINTENANCE

Price-maintenance is a term used to designate a business policy applied in the marketing of products through middlemen. It consists essentially of the limitation or restriction placed upon middlemen or dealers not to resell at more or less than a certain price named by the manufacturer or producer.

Business men take views upon the subject in accord with their business interests and cannot be reconciled. The United States Supreme Court has decided, in decisions to be referred to later on in this chapter, that price-maintenance under ordinary and customary forms is illegal. An attempt has been made, and likewise opposed, to secure national legislation permitting the practice of the policy. In consequence of these things and because of the gravity and far-reaching effects of the problem, it has become a matter of vital public interest. A solution is now demanded of the court of public opinion.

The price-maintenance policy originated with the present system of distributing goods through wholesalers and retailers. Large scale, specialized production, dependent upon wide distribution through the regular channels of trade, and cut-throat competition are the conditions out of which grew the demand for this policy.

From the earliest developments of the factory system, there existed the sharpest competition both among producers and distributors. At first, the producers fought their com-

petitive battles almost entirely by attempts to cheapen the quality of the goods and by trying at the same time to keep up appearances. It was the age of fleeting colors, shoddy, glue, and paste. Some of these manufacturers, as well as their distributors, never expected to sell a consumer the same make of article more than once. American-made goods were the laughing stock of the world. "Cheap factory-made stuff" was a commonly used phrase.

This state of competition led to evils that had to be corrected by state and national legislation. As a result there grew up whole codes of factory laws, child-labor laws, pure-food laws, and so on; and, as an indication that the same forces are still operative, it may be noted that there is an emphatic demand from many parts of the country for pure textile laws, pure shoe laws, and truthful advertising laws.

Out of the competition mentioned above, there grew two movements. One was the trust, built on the financial wreckage of unsuccessful plants and seeking a monopoly of the industry by controlling either the sources of supply, or the markets leading to the consumer. The other was a movement to get the trade of the public by giving satisfactory goods at satisfactory prices. It was thought by some producers that in the long run, in preference to making cheap goods for competitive selling, it would be more profitable to make goods of constant standard qualities, and depend upon the judgment of the public for returns.

Some of these producers who believed that they could build successful businesses on the basis of making goods of standard qualities began to carry out their plans. After they had developed their product to the standard of excellence decided upon, they began to tell the public about it by advertising and otherwise. The goods were distributed through the most economical means available at the time, that is, through the regular channels of trade. The public

saw the advertisements, tried the new standard goods, paid the standard prices for them, and were satisfied. They came again and again for the same goods. They were evidently permanently satisfied.

Let us remember that the dealers were still, and are yet, largely without well recognized standards of merchandising competition. Each man did whatever was within his power to keep his own trade and attract the trade of his rivals, whether the means were fair or foul, so long as the law permitted and the public remained indifferent. Price-cutting had been a device of traders since the beginnings of commerce. It was not long before some enterprising dealer thought of these new standardized goods, now becoming well-known to the public, as splendid means of drawing trade to his store. The bait worked. Not only did he draw customers to his store for the cut-priced standard goods, but he sold them other goods upon which the prices were not cut and upon which his profits were sufficient to make up for the losses on the cut-priced article.

Thereupon other dealers in the community handling the same article, were forced either to cut the price on this article also or to substitute for it some other article, and do everything possible to counteract the trade-drawing influence upon the public mind of the combination of a bargain price and a standard, well-known article.

The next time the representative selling this particular standard article visited this town, the retailers (all but the price cutter) would refuse to buy any more. Not that the goods were unsatisfactory in any way to either the dealers or the public, but the retailers did not want to handle them because to do so meant a loss. They could not be expected to conduct a store and to sell goods without some return for their services and outlay. Consequently the salesman got no orders from this town, except from the price cutter,

and after customers had purchased as much of the article as there seemed to be an immediate demand for, and when it seemed to lose its power as a trade attractor, then it was time for the price cutter to drop this article and to use some other standard article as a leader. Hence the producer lost not only his outlet through the other retailers, but also through the price cutter as well.

After such incidents had happened in several communities the producer began to sit up and take notice. What could he do about it?

If he had a monopoly on the production of his kind of goods, and if they constituted one of the necessities of life of large classes of people, he could probably disregard local price-cutting difficulties. The dealers would be forced by public demand to carry the goods whether they received any profit for their services or not.

If the producer was the owner of large plants making many different kinds of articles and had plenty of capital behind him, he might not be worried by local price-cutting. If the regular dealers could not agree to sell his goods without friction, he could develop a selling organization of his own, pass over the heads of the jobbers, and sell direct to retailers. In this way he could select his customers and sell to those only who would agree to maintain prices. He could refuse goods to the price cutter simply by not going near him, or by pleading inability to fill his orders if they were sent in by mail.

If this plan still left something to be desired, he could start agencies, branch stores, or other outlets all of his own, where no one could question his right to sell his goods at the standard price.

With large amounts of capital to spend in advertising, the producer might even be able to create a consumer-

demand, strong enough to force regular dealers to carry the goods even against their wishes.

But note the additional expense in all of these methods, the friction, and the unnecessary duplication of effort. It is a principle in business economics that any method of distributing goods which attempts to proceed without the active co-operation of the distributing agents is uneconomical and wasteful. Where there is waste somebody must pay the bill. In some cases, it might mean a loss to the manufacturer, but where the wasteful way is the regular way, the burden would be shifted to the consumer.

But if the producer were a small manufacturer with limited capital, or a manufacturer of a single commodity of small price value, he could hardly disregard the effects of local price-cutting. He would find his business slipping from him in one community after another, no matter how well his product was made, and no matter how well the consumers of that product were satisfied with it. What would be the remedy?

He might give up advertising and making goods of standardized qualities, and go back to producing competition stock with cheapness as his aim.

He might unite with or sell out to some other manufacturer with an independent selling organization, enabling him to carry the goods direct to retailers or consumers in the manner that some large plants now do.

He might unite his plant to some selling organization such as a mail order house, department store, jobbing concern, or chain-store system. Although some such distributing concerns are taking over many factories, they are, on the whole, not anxious to do so except when the factory is sold to them at a great sacrifice. Some of these selling organizations, according to their own statements, can get

abundant supplies of goods at prices lower than they could possibly manufacture them for themselves. Some of such businesses are built on the policy of collecting and disposing of lots of goods at figures below the normal costs of production. The losses are the producer's, the gains the distributor's, rarely the consumers'.

He might surrender his plant to a trust which is, singularly enough, almost always incipient in industries suffering from price-cutting competition.

His only other alternative was to attempt to suggest or name prices for which his goods were to be sold by the dealers who handled them, and prevent anyone from changing these prices. It was because of the conditions just described that the price-maintenance policy was devised. Several manufacturers began carrying out the plan during the 70's and 80's, but its main development has come during the last twelve or fifteen years.

To prevent price-cutting on standardized goods among certain dealers who chose this method of attracting trade to their stores, the producers sought protection under the law. But as the need was new and the law was old, it is not to be wondered at that but little protection for the price-maintenance policy could be found therein. Prior to 1907, however, both state and federal courts uniformly sanctioned the price-maintenance principle.[1]

The recent decisions of the Supreme Court of the United States do not prohibit the price-maintenance principle. They simply prohibit certain methods of price-maintenance, the most economical from the standpoint of independent producers and the public. Price-maintenance is now perfectly possible, and legally legitimate, if the producer is able to build a selling organization of his own, and is able to sell direct to consumers by means of his own agents or

[1] See Appendix VII, "Judicial and Other Action Affecting Price-Maintenance."

salesmen or through chain or branch stores. It is still possible if the manufacturer builds a selling organization of his own and sells direct to retailers. If the retailer, to whom he sells, cuts prices, he can refuse to let him have more goods. Probably, the manufacturer can appoint any or all retailers of his line as his agents and direct them in the matter of resale price as well as in any other particular. The manufacturer can consign his goods to his agents with instructions to sell at a specified price.

But all of these methods involve great expense in building up sales organizations that in a measure simply duplicate organizations already in the field. Going through the formality of appointing agents, sending out goods on consignment, and making collections involve a large additional selling expense compared with the regular methods of distribution. Thus, while price-maintenance has not been prohibited, it is now legally practicable only for the larger and more powerful producers. The added and unnecessary expense involved in conforming the distribution of such goods to the views of courts basing their decisions on laws that do not apply to the case at all, must ultimately be borne by the consumers.

Such then is the status of price-maintenance at the present time. Manufacturers of specialties, depending for distribution upon the regular channels of trade, and manufacturers without selling organizations of their own but who produce goods that must be widely distributed, are in favor of price-maintenance.

Manufacturers who have monopolies in the production of necessaries of life are indifferent to price-maintenance. Manufacturers with well-developed selling organizations of their own that reach the retailers or the consumers directly, not only do not care for price-maintenance, but seem to be hostile towards it, probably for the reason that they do not

need it themselves and fear if it should be made permissible, new factors of competition would have to be faced.

Wholesalers are either for or against price-maintenance according to whether or not they have special brands of goods that they desire to push. The wholesaler with a brand of goods of his own is in much the same position as the manufacturer with a well-developed selling organization; he has nothing to gain by legalized price-maintenance. His selling organization accomplishes directly and effectively what other producers without selling organizations hope for through price-maintenance. He, too, fears that if price-maintenance were made possible his present competitive market advantages would be more nearly equalled by specialty manufacturers.

Retailers as a class seem to be in favor of price-maintenance.[2]

Those who favor price-standardization claim that its employment results in a square deal to all concerned — to producers, distributors, and consumers. It is held that the policy is beneficial to producers, and makes it unnecessary for a producer to compete with articles that he has made himself, and that it enables him to seek the most economical methods of distributing his goods. It is claimed that the policy provides a reasonable profit, no more nor less, for the dealers, and that it insures a product of standard qualities at a fair price in each case to all consumers. Without price-standardization, it is claimed, manufacturers are forced

2 "In answer to the query whether dealers favor price standardization the Eastman Kodak Company and A. J. Reach Company received answers from over 90 per cent of the retailers carrying their goods and in each case 98 per cent voted for price-maintenance. A similar census taken by the Waterman Fountain Pen Company showed 98 per cent favoring that form of merchandising. Out of fourteen hundred and five replies received by the Kellogg Toasted Corn Flake Company to the same question, only eight dealers were against the maintenance of uniform prices. And in six thousand votes cast by retail jewelers in the Hamilton Watch Company poll, there were only three opposed to the enforcement of standard prices." Quoted from an article by Chas. L. Miller, in the *Univ. of Pa. Law Review,* November, 1914, entitled "The Maintenance of Uniform Resale Prices."

to combine into trusts to protect their goods; and small, independent dealers are driven out of business by large retailing concerns that use price-cutting merely as a bait to attract trade, and who make up for cuts in their prices on some goods by overcharges on other goods.

The reasons given in opposition to price-maintenance are that it interferes with the rights of property; that it makes the dealer the "manufacturer's slot machine" or "errand boy," that it constitutes injurious restraint of trade, that it prevents dealers who are able to do so, to sell more cheaply than other dealers, that it protects the inefficient dealer at the expense of the consumer, and that the consumer must pay higher prices for his goods than he otherwise would.

Several other arguments are offered on both sides, but all attempt justification on one or the other of two grounds, viz., economy to the consumer, and fairness to all parties concerned.

To the argument that price-maintenance interferes with the dealer's rights of property but little space can be given here. This is a question that may be handled much better from the legal than from an economic standpoint. Property rights are held by individuals by permission of society. Individuals are protected in those rights because it is assumed that the welfare of society is best promoted by such a course of action. Wherever an individual exercises a right or privilege that militates against the best interests of society that right is subject to restriction to fit the needs of the case. Whether the restraints placed upon dealers by price-maintenance are reasonable or not, depends upon their effect upon all concerned. Whatever is found to be of the greatest good to the greatest number must here as elsewhere determine the proper course. It may be safely assumed that such rights are not greatly endangered if it be true, as the

evidence seems to indicate, that the great majority of independent retailers, the country over, are in favor of price-maintenance.

The public is not much interested in the objection that price-maintenance makes the dealer the "errand boy" of the manufacturer, nor are most dealers apprehensive of the odious relationship suggested by this expression. The dealer is in business to perform a service for the public for which he expects a profit. Whether the profit may be made most easily by handling goods advertised and guaranteed by the manufacturer, or goods advertised by himself, makes but little difference, so long as there is profit in them. There are numberless ways in which a retailer can individualize his business, other than by charging a higher or lower price than that set by manufacturers.

That price-maintenance constitutes injurious restraint of trade and tends towards monoply, if it be true, is of much greater significance to the public. But the monopolist, as we have seen, is little interested in maintaining prices at which dealers are to resell, and the price-fixing of the monoply is an entirely different thing from price-maintenance.

The price-fixing of combinations is dangerous to the public because the combination controls a cross-section of the machinery of business, and it is made up either of producers making the same or similar sorts of things, or of dealers selling the same sorts of things. Price-maintenance means longitudinal co-operation in the channels of trade. The former eliminates competition and raises prices to the point of maximum profit to the group concerned. The latter breeds competition, if not in price, certainly in quality and service, hinders the forming of monopolistic combinations among dealers, and permits the manufacturer of a specialty to continue to exist independently.

Price-maintenance restricts competition among the producer's own products, but in doing so it sets the energies of the producer free to work out the most economical system of distribution possible for his particular kind of goods. Where price-maintenance does not prevail, the producer, without channels of distribution of his own, must not only struggle with his competitors among the producers, but also with the goods he has produced remaining in the hands of dealers. In other words, he has unwittingly become a second Frankenstein and must avoid destruction at the hands of his own creation.

We have seen that a struggle of this kind is likely to force a small manufacturer to cheapen the qualities of his goods and to attempt to get distribution by stimulating excellence; or to combine with some other manufacturer who has a selling organization reaching direct to the retailers, or to combine or sell out to some large selling organization such as a mail order house, department store, or chain-store system, or to surrender to a trust.

None of these results in themselves are desirable from the standpoint of the consumer or the public. The American people do not look upon the development of great business and commercial organizations with easy minds. Our experience with industrial combinations has not yet clearly indicated the way to handle these concerns. One may not be pessimistic about the future, and still grant that the development of such concerns brings new and difficult problems for our government to solve.

That price-standardization has no necessary connection with monoply prices and profits should be obvious. If a producer has a monoply in his line of goods, he is in a position to get a monopoly profit whether price-maintenance is employed or not. It is more than likely that such producers when they name the resale prices, will fix them at a point

that will not give the retailer any net profit at all, for after their own profits have been provided for, it would seem to be to their interest to get the goods to the consumer with as small additions to the price as possible in order to enjoy a large volume of sales. At any rate, such was the experience of dealers under the price-maintenance regulations of the Sugar Trust a few years ago. After a time of experiment with the policy, aimed at reducing the friction among dealers due to price-cutting, it was given up.

That price-maintenance does not prevent competition will be clear when one observes that there are a dozen well-known safety razors on the market, scores of varieties of corn flakes, several brands of grape juice, probably hundreds of brands of shoes, several brands of collars and cuffs, dozens of makes of cameras, dozens of brands of hosiery, corsets, hats, and so on; lines in which some manufacturers have maintained their prices for years. A standardized article at a fixed price attracts both direct competition and substitution. It will always be found profitable to make variations from time to time both above and below the quality of the standard article to suit individual tastes and means. In fact, price-standardization makes such competition possible.

That the price-maintenance policy results in higher prices to consumers is subject to doubt. Certain investigations have been made, which, so far as they go, show that articles sold at maintained prices are no higher on the average than goods of the same quality that are not price-maintained. Nor are the profits made by the dealers on price-maintained goods any larger than on other goods of the same kinds, but not price-maintained. On the contrary, the prices and profits seem to be somewhat lower on the price-maintained goods than on competing goods not so restricted.

The main difference between the two classes of prices

is the stability of both price and profit of the price-maintained goods while the prices and profits on unstandardized and non-price-maintained goods vary widely from time to time. This suggests that, possibly, dealers who object to price-standardization do so because of the desire to sell at higher than regular prices almost as often as they desire to cut the prices.[3]

In fixing upon a price at which a competitive article is to be sold to the consumer, the producer, who desires to maintain a standard price, is confronted by two considerations. One is that he must allow the retailer who is to handle his goods enough profit so that he will be satisfied to handle them. On the other hand, the price must be kept as low as possible to the consumer in order that the sales volume may be high. Every addition to the price reduces the quantity sold. This is an almost universal fact. As an illustration of this point, consider the case of a manufacturer in the Middle West who put out an article which was sold to consumers for 35 cents. After some months, he concluded to have the price changed to 25 cents. As a result the sales increased twelvefold. Knowing that consumer-demand varies to a very considerable extent in nearly all classes of goods in accordance with the price, the producer is likely to fix the retail price at a point that will allow the retail dealer as small an amount as he dares, an amount sufficient only to cover the expenses of doing business in an

[3] In a hearing before the Committee on Patents in the House of Representatives, May 30, 1912, Wm. R. Ingersoll, of the firm of Robt. H. Ingersoll and Brother, New York City, presented a list of the prices and profits made by retailers on 55 price-maintained articles and 142 articles of the same classes but not price-maintained. This list has been quoted by *Printers' Ink* and also by Professor Paul T. Cherington in his "Advertising as a Business Force."

The writer has verified a number of the figures given in this list, and, except for minor inaccuracies that might be explained by changes in prices and difference in territory in which the information was obtained, has found them correct. So far as known the fairness of the list, though the latter was compiled by one who favors price-maintenance, has not been challenged. In the hearings on the price-maintenance question before congressional committees, no price comparisons were presented by those who opposed the policy.

efficient retail store, plus a fair net profit. Inefficient dealers and other classes of retail stores with high expenses may obtain no net profit at all.

Speaking upon this point, F. W. Aldred, Secretary of the B. H. Gladding Dry Goods Company, a large department store in Providence, Rhode Island, said:

"The tendency for the successful national advertiser (the producer of standardized goods) is gradually to lower the possible profit of the retailer until this profit gets to or below the retailer's cost of doing business. This is a major reason why the retailer, whose expenses for all kinds of *service* are continually being jacked up by competition and the requirements of his customers, is becoming less and less anxious to exploit trade-marked goods and more and more anxious to put his own brand on the market, or, at least, have no name but his own connected with the goods. . . . I believe nine out of ten advertising sales-managers of the larger stores will substantially agree with me in most of the above." [4]

Price-maintenance makes it possible for specialty manufacturers to produce standard goods of standard qualities to which they may attach their names and guaranty to the consumer. There is no object in maintaining prices on goods that are not standardized in quality, and it does not pay the producer at the present time to try to maintain quality and advertise it to the consumer without some assurance that dealers will not make a football of it. Such standardization and identification of merchandise by producers is desirable for the public for several reasons.

First, the consumer can tell by one single inspection or trial, whether such an article is suited to his needs or not. If it is desirable, future purchases of the same article will take up but little time or energy. If it is not desirable, he

[4] *Printers' Ink*, June 13, 1912.

can just as easily avoid getting it. Thus the buying process of the consumer is simplified, and time and energy are saved.

Second, the standardized article saves both the consumer's and dealer's time usually taken up in demonstrating the goods. The consumer is assured of the quality he is getting without taking the time and pains to make a careful examination before purchasing. The dealer is saved the time that is usually taken to describe and push the unknown, unstandardized article. In these days, with our complex standards of living, these savings are highly important.

Third, the standard article serves as a basis of comparison. When the dealer substitutes another article, and tells the consumer, " This is just as good," or " This is a better article," assuming that what the dealer says is true, the consumer knows what he means. He is getting a clear idea of what the dealer claims. He is able to hold him to his statements.

There are, of course, standard goods which are not price-maintained, but they are generally goods produced either by trusts or by concerns having power sufficient to push them through to the consumer even without the active consent of the dealers. A large number of standard goods are of necessity price-maintained, whether the process is legal or not.

It is usually assumed that price-cutting benefits the consumers. It cannot be denied if an individual buys a regular $1 article for 79 cents that he is a gainer by 21 cents. But such cuts in price cannot be made by any retail store, large or small, without losing money. After the expenses of retail stores are paid the usual margins of profit are never wide. A very large number of retail stores are not able to earn any net profits at all. The best they can do is to pay their expenses. It is commonly asserted that 90 per cent of the retail dealers fail sooner or later. What does this

mean but that in the long run the majority of retailers are not only unable to make any net profits, but are also unable to hold their own and meet their expenses in full? Price-cutting under such circumstances means that what is cut off at one place must be made up at some other. There is no choice about this if business is to go on.

Nor is there any conclusive evidence that concerns that practice price-cutting are really operating their businesses upon lower gross profit margins and lower costs of doing business than regular stores. If it could be shown that these institutions can supply consumers at a lower expense than others, then it would seem wise economic policy to encourage them by every means possible, and a price-maintenance policy should not be allowed to stand in their way. Such figures as are available seem to show, all things considered, that the costs of distribution are practically the same through the department stores, chain stores, and mail order houses, as through the regular distribution agencies. Advantages of some kinds are found in the case of each, but the advantages are counterbalanced in each case by disadvantages as well. Certainly there seems to be but little economic argument in favor of the big retail store as against the small store. Until further evidence is obtained it must be held that large-store efficiency does not lie in the ability to sell goods at a lower percentage of expense than the small store. Whatever economies or savings there may be in large-scale production, the same rule does not seem to hold for retail distribution.

The peculiar strength of the large retailing institutions without question lies in their advertising and buying powers. In their advertising they get maximum efficiency by using large space and by employing the most skilled writers to fill this space. The size of the institution and the amount of goods displayed therein is in itself a magnet to crowds. In buying, the giant retailing concern gets all of the regular

discounts for quantity and cash and frequently other rebates and discounts similar in nature to those which the railroads used to give the big shippers before the Interstate Commerce Act was passed to stop such unjust discrimination. By the pressure of their financial power they force undue differentials from their suppliers. It is true that some retailing concerns of this class become manufacturers of parts of their own goods, but it is also true that a large number of them prefer not to take over factories, because they can buy goods cheaper from other mills than they can make them for themselves.

Because the big retail concern is sometimes able to buy goods at less than costs of manufacture, it is enabled to sell goods to the public, when it finds it necessary to do so, at prices lower than those of the small dealer and still make a good profit. Both the reduced price to the public and the profit are due, not to efficiency in distribution, but to the special inside price granted the big store by the producer.

But undoubtedly the time will come when special inside prices and quantity discounts will come under public observation and regulation. In the public utilities inside prices are now forbidden. Railroads are no longer permitted to make discriminatory rates to big shippers as they once did. The government does not make a difference in price to different persons in the sale of postage stamps no matter what the quantity purchased.

There may be some justification for a quantity price or discount when based on items of saving to the manufacturer such as storage, insurance, interest on the money invested, and reduced costs of handling, but the dealer who gets a discount just equivalent to these items is not thereby enabled to undersell others. The items of storage, insurance, interest, and handling must in this case be met by him instead of the manufacturer, and the retail price must cover these

expenses just the same as in any other case. But there is very little social justification for a quantity discount or inside price that discriminates between buyers to the material advantage of one and to the disadvantage of others. It does not seem at all unlikely that such discrimination will some day call for legislative or other regulative action of the same kind and for the same reasons as that taken in the case of the public utilities.

In the meantime many manufacturers who have seen the outcome of such market discrimination are discarding the policy of giving quantity prices altogether. The quantity price that cannot be justified by economic reasons is out of date and unworthy of our times. It bears no relation to efficiency and comes into existence almost because of the coercion or pressure of big capital.

President Wilson has said:

"Safeguard American men against unfair competition and they will take care of themselves. . . . If you make the processes by which small men are undersold in particular markets criminal, then you have freed America, and I for my part am willing to stop there and see who has the best brains."

The cut price to the public does not represent purchases made by the dealer at inside prices as frequently, probably, as it represents a device used to attract trade. On the whole the cut price in most retail stores is of psychologic rather than economic significance. Its purpose is to attract trade. When the prospective customer enters some stores, it is the well-understood duty of the salespeople to try to sell him something else, or in addition to, the cut-price leader. One can safely agree with John Wanamaker, that greatest of all living American merchants, when he said:

"I want to keep away from the store that tries to catch me with that kind of a fish hook. If they lose on one thing

they will put it on something else you do not know of. There are things purchasers do not know anything about."[5]

No article serves the purpose of price-cutting so well as a standard article generally sold at a fixed, well-known price. Everybody recognizes such a bargain, but few people recognize the full significance of what happens to them when they get into the store offering the bargain.

The small storekeeper is probably no better in his business morals than the big store manager, but his opportunity for playing the same game on the public is much more limited. The retailer of one line cannot cut prices on many things or he will be without a business in a short time. But the big retail institution with twenty-five or more departments can cut prices in any one of these departments on every article in the department, if it chooses to do so, and make up daily its deficits in that department by the profits from the other departments. In this way the big store can carry on war with all the merchants of some one line in its town and practically drive them out of business in the same way that the Standard Oil Company used to kill off its competitors by selling oil at less than cost in the competitor's territory and at big profit in its own territory.

Price-maintenance prevents the big retailing concern from using such unfair tactics. If the small independent store handles price-maintained articles its profits will not be small, and the big store will not be able to crush it out.

To give to the big store, the chain store, and the mail order house the free hand that some of them desire in such matters as those under discussion here will only lead to a deeper accentuation of some of the economic ills that already beset us, such, for example, as the consolidation of independent specialty manufacturers into trusts, the concentration of retail markets in the large cities and in certain sec-

[5] Report of U. S. Industrial Commission, Vol. VII, p. 465.

tions of those large cities, the piling up of enormous unearned increments in land values in these sections and the depreciation in values in, and the decay of, small towns. As a citizen, one cannot lightly pass this struggle by without considering what the effect will be.

What has been said should not be considered as a criticism of the larger types of retailing concerns. There is no question but that these perform some services for the public much better than the smaller stores. Large numbers of the big department stores, probably a majority of them, are as much opposed to unfair methods as any one possibly could be. These concerns are appealing for trade on straightforward lines, selling goods for what they really are, and performing their service in a most creditable manner. It is likely that the highest type of retail merchandising in existence today, considering service to customers, treatment of employees, and general public spirit, is to be found in some of the best department stores. But these are not the concerns that are strongly opposing price-maintenance.

In conclusion, price-maintenance is a need of modern production. The demand for it comes from the small manufacturer, or the producer of a specialty, rather than the big concern, the producer of many lines, or the trust. The big concern does not need any legislation to help it in maintaining prices. It already has the means to do so — means that no one can deny. Its objection to price-standardization, when objection is raised, is purely selfish.

Price-standardization does not check competition. It will rather give us the best results that competition can offer. Price-maintenance is to present-day business what the rule not to strike below the belt is in prize fighting. One blow below the belt may put the best fighter in the world on the floor in a moment and thus end the struggle. A foul blow in business competition, such as unjustified or dishonest

price-cutting has shown itself to be in several cases, might send the most efficient and socially useful producer into a receivership. The naturally weak productive or distributive agent deserves no special protection if there are other equally efficient agencies at hand to perform the same services. On the other hand, efficiency cannot be measured by capitalistic power alone, particularly in the distribution of goods. The big institution should not be allowed to have peculiar, artificial or legal advantages with which to crush its less powerful competitors, either directly or indirectly.

Finally, to succeed, the standardized price must be fair to the consumer. Price-maintenance, therefore, promotes the square deal to all concerned — the producer, the distributor, and the consumer. In granting the privilege of maintaining prices to manufacturers, we shall be doing only what has already been done in one way or another by several of the European countries. We shall only be giving to the small manufacturer and the manufacturer of a specialty a right that many large concerns can, and do now exercise without question, through their own agencies, chain stores, or selling organizations.

Bibliography

The best source of information concerning the development of the price-maintenance question is *Printers' Ink*. There have been literally hundreds of allusions to the subject as well as scores of articles during the last five or six years. For an extended list of these articles application should be made to the publishers.

Advertising and Selling has likewise published a number of articles.

Other magazines that have given considerable space to a consideration of the question are the following:

Scientific American
Literary Digest
Ladies' Home Journal
Harper's Weekly
Outlook
Independent

Collier's Weekly
World's Work

The following articles not found in the above seem noteworthy:

Miller, Chas. L. The Maintenance of Uniform Resale Prices. *Univ. of Pa. Law Review,* Nov., 1914.

Hard, W. Better Business. *Everybody's,* May, 1914.

Rogers, E. S. Predatory Price-Cutting as Unfair Trade. *Harvard Law Review,* Dec., 1913.

Books dealing with the price-maintenance question:

Cherington, P. T. Advertising as a Business Force, Ch. XII, "Price Maintenance." 1913.

Fernley, T. A. Price Maintenance. 1912.

Mahin, J. L. Advertising, Selling the Consumer, Ch. XIX, "Price Maintenance." 1914.

The Selling Problem. Published by the *American Sunday Magazine,* pp. 7–30.

The best statements, although in voluminous form, are to be found in the public record of the hearings before the Committee on Patents, U. S. House of Representatives, 1912–1913; the Judiciary Committee of the House of Representatives, 1913–1914; and the Committee on Interstate and Foreign Commerce, House of Representatives on H. R. 13,305, February 27, 1914, to January 9, 1915.

The American Fair Trade League, Fifth Avenue Building, New York, has issued several pamphlets and reprints setting forth the affirmative side of the question.

An otherwise excellent little publication from the offices of the American Fair Trade League misquotes the writer on pages 25 and 26. It asserts that the writer stated before the Judiciary Committee, March 19, 1914, that "the average cost of doing business in the large mail order houses is from 27 to 30% and that the average cost of the large department store is 30%, or over." Figures were given by the writer for mail order houses of from 16 to 26% with an average of 21 to 22%, not including the cost of transportation of the goods. No figures were given by the writer on department store costs at that time.

CHAPTER XVI

BUYING AT INSIDE PRICES

To buy more goods for the same money, or to buy the same goods for less, seems to be the sole aim and ambition of many retail store buyers. The fear that his competitors may be able to buy goods for less than he must pay is the *bête noir* of the average retailer's business life. Sellers have discriminated among buyers, have sold to some for more and to others for less, since the beginnings of trade. Upon such differentials as these some buyers have grown rich while others have starved.

With the passing of the age of hand industry and the coming of mechanical production with distribution on a large scale, the keenness of competition among dealers for inside prices has increased rather than diminished. The results from such discriminations are now on a larger scale and more disastrous than formerly, and therefore more obvious, hence the subject has lately begun to take definite form in the minds of buyers and sellers as a problem demanding some solution.

The main reason for special consideration of the subject of buying at inside prices at this time is that during the last two or three decades several types of distributive institutions have come into existence whose aim has been to buy only in depressed markets, to deal largely in goods bought in special lots or jobs, and to get trade by selling below the regular markets. Many such concerns have, without doubt, been able to sell some goods at less than usual market prices, but

because of the still lower prices at which they bought, were in some cases able to make profits even higher than usual. A customary method of disposing of such purchases has been to advertise them for sale at cut prices in such a way as to lead the average consumer to believe that all prices in the store are equally low. To increase this illusion, the goods selected for sale at cut prices are scattered throughout the store in many departments. To use an expression common among merchants, the regular stock is "sweetened" by the intersprinkling of "bargains." Goods purchased in job lots or otherwise at special inside prices furnish the retailer with the opportunity to make such offerings without loss to himself, and much to the confusion of other competing retailers.[1]

Discriminations made to buyers for retail stores occur in a multitude of forms, some of which are so old in usage as to merit being called customs of trade. They range from such smaller concessions as entertainment for the buyer while he is in the market-city — dinners, cigars, theatre tickets, and so on — to deep cuts in the regular prices and special discounts.

Concessions made to influence buyers in a personal way have been considered rather disreputable lately, especially since buyers have come to be employees rather than the owners of their respective stores. Gifts, goods for personal use sold at cost or at very low prices, and percentages, or "rake-offs," on all purchases made for the store are now rightly classed as species of graft, and all such practices are frowned upon by business managers generally. But the reasons assigned for disfavor are generally to the effect that the buyer who is the recipient of such personal tips or con-

[1] Of course not all stores offering goods at cut prices do so with the intent to deceive the public into believing that all goods are sold at equally low figures. The cut price is openly used by many concerns to draw trade to the store in the hope that the customer who comes for the cut-price article will see something else that he or she wants and thus increase the store's sales.

cessions cannot serve the store for which he buys, loyally and efficiently. The buyer is still expected to get all of the price reductions, special favors, and concessions that he can for his employers, but must not permit such inside practices to redound to his personal advantage.

One of the most common price-discriminations is based upon quantity purchases. The larger the quantity purchased the lower the price per unit is set. A large majority of manufacturers and wholesalers have regular scales of prices, as for example, a certain price per dozen, but a lower pro rata price per gross, and a still lower figure for great gross lots. In some cases this quantity price is given in actual figures as stated above; in others, it is given in the form of an extra percentage off in the trade discounts. For instance, certain lines of goods handled by hardware and jewelry stores in small lots cost 40 per cent less than the list, the price at which the goods generally retail, but if the dealer buys a certain quantity he is given 40 and 10 per cent off the list. If he buys a still larger quantity he is given another 10 per cent, that is, trade discounts of 40 per cent, 10 per cent, and 10 per cent off list.

The large purchaser sometimes receives favors not only from the manufacturer or wholesaler with whom he deals, but also from the salesman representing the manufacturer or wholesaler. In order to get the big dealer's order in the face of competition, the salesman often splits his own commission with the dealer. It cannot be believed that this is done without the knowledge if not actual consent of the employers.

In a similar way, it is complained by manufacturers who desire to have their prices maintained, that jobbers split their profits with the big retailers. The jobbers contend, however, that this practice must be followed in order to hold the big dealers' trade, that if the jobbers would not grant the

price concessions the dealers would probably go to the manufacturers directly and get as much as they now get.

Another form of special favor to certain buyers is the so-called "free deal." Concerns that use this device frequently say that they have no special prices. Everybody pays the same price, but occasionally goods are thrown in free with other goods ordered at regular prices. The dealer ordering and paying for five cases receives one case in addition. The dealer ordering ten cases may receive three cases free, and so on. The free deals are not always made up of the same goods as those ordered. For example, soap concerns frequently give supplies of various toilet goods, face creams, lotions, and so on, with big orders for laundry soap. Patent-medicine makers include other remedies with the order for a certain kind. In some cases a condition is placed upon the dealer that the free goods are to be used in his window displays for a week, or that they are to have a prominent place in the show cases. Except for such conditions which constitute contracts for services to be performed by the dealer for the wholesaler or producer, the free-deal, except in name, is essentially the same as a quantity discount, or a special price. Concerns that have tried to eliminate the former have generally fallen into the latter method; and the giving of free deals is as common as quantity discounts.

Another form of special price given to some buyers is a larger-than-usual discount for cash. The seller may object to giving a regular discount off his established price, or he may not be willing to throw in any free goods, and may still be prevailed upon to grant an additional 1 per cent, or more, for prompt payment. Discounts for cash run from 1 per cent up to 7 per cent and even 10 per cent if paid within ten days, with terms of 30, 60, or even 90 days net. If the buyer pays within 10 days he may take advantage of the

discount, but if he does not pay then he may let his bill run for the remainder of the term, but must in this case pay the full price. The cash discount became customary during the Civil War and the years following when long credits, such as had up to that time prevailed, became especially risky. But competition among sellers was keen. They did not dare give long credit terms, but they did give large discounts for prompt payment. The cash discount has continued to the present as a premium for cash down or within a short period, such as 10 days. The usual discounts given, not to mention such discounts as the more successful buyers are sometimes able to get, are rather high when compared with usual interest rates. For example, terms of 2 per cent if paid in 10 days, or net if paid within 30 days, terms which are very common and not considered unreasonable by most business men, either buyers or sellers, mean an interest rate of 36 per cent per annum on money that the buyer advances within the 10 days rather than waiting 30 days and paying the full bill. Terms of "1 per cent if paid in 10 days, net if paid within 30 days" yield an interest of 18 per cent when computed upon an annual basis. While cash discounts of "7 per cent off if paid in 10 days, 60 days extra," terms found in some lines, yield a saving equalling an interest rate of 42 per cent. Marketing upon the basis of these higher rates of discounts is either abnormally risky or else makes a very unfair discrimination against the man who does not have the cash to pay at once. Nothing indicates the present, unscientific character of business better than the rule of these customary discounts for cash long after the original cause for them has passed away.

The buyer's problem is not complicated so much by the customary rates of discounts, however, as by the unusual and irregular terms given only to a few. Thus when the prices have been fixed upon between buyer and seller, the bargain-

ing for terms begins. An extra 1 per cent, as we have seen, is enough to make all the difference between success and failure among closely competing concerns.

There are several variations in the ways of granting favors in other methods than by raising the percentage of discount. In some cases the term of discount is lengthened so that instead of giving the buyer only 10 days in which to pay his bill if he wishes to take advantage of the cash discounts, he is sometimes given 30 days, 60 days, or even more. To gloss the process over and to give it the form of regular transactions, the device of forward dating is employed. Thus, a bill of goods bought February 1, and received within a week may be dated as if the sale took place March 1, or April 1, and subject to the terms of discount from the latter rather than the original date. In such cases the buyer gets the advantage not only of the regular cash discount, but also of the use of his money for one or two months longer than he otherwise would. We have here the strange spectacle of a man both eating and having his cake at the same time.

Forward dating upon a somewhat different basis and for a different reason is common in many lines of goods that have seasonal sales, such as clothing, underwear, hats, and so on. Orders from retailers are taken far in advance of either delivery or possibility of making retail sales. To have the bills mature at a suitable time, they are usually dated in the future and then customary terms are accorded the buyer from the future date. The necessities of the case cause the sellers to fix the time of payment to coincide with the time of receiving the goods, and the forward-dating device has been utilized to make this possible. No objection can be offered to this except when forward or extra dating is given to buyers in the form of favors or special discriminations.

It is impossible to state how much the practice of giving inside prices to preferred buyers prevails. Neither those who give such prices nor those who accept them are willing as a rule to tell about them. From time immemorial, the prices that a retail concern pays for its goods has been considered a matter to be guarded closely.

The secret price-mark for retail selling has given way very generally to the one-price-to-all policy, a policy that now is held in great public esteem. But producers and wholesalers have not yet gone so far, with a few notable exceptions, in fixing their prices when selling to retailers. If a special price is given it must of necessity be kept secret, or every other buyer will urge his rights to the same price. What is lost on selling at a special discount to one buyer must be made up by selling at higher prices to other buyers.

As indicated above, a few concerns have adopted a one-price-to-all policy in selling to dealers. Recent news items in the trade press indicate that the Shredded Wheat Company, Kellogg Toasted Corn Flake Company, and The Welch Grape Juice Company have adopted a policy of selling to all dealers at one price regardless of quantity or other considerations. Other concerns such as the N. K. Fairbank Company, The Enoch Morgan and Sons Company, The Eagle Lye Company, The Wildi Evaporated Milk Company, Swift and Company, and The Crystal Domino Syrup Company have decided to give no more free deals.

As indicative not only of the extent of quantity discount and other special price-making devices, but of the fact that men of business are beginning to question the outcome of unrestricted practice in these lines, a symposium on the quantity-price problem in a recent magazine is enlightening.[2]

Samuel Cabot, Inc., Boston, wrote:

"It is notorious that the quantity discount has degen-

2 *Printers' Ink*, April 2, 1914, p. 64 ff.

erated into a special favor which is out of all proportion to the saving made by the manufacturer because of landing large orders."

R. R. More, Vice-President of the Diamond Crystal Salt Company, stated:

"It has been customary for the large buyer to demand, and for sellers generally to concede, a lower price on account of a large quantity. There is perhaps one valid excuse for such quantity prices. It reduces the selling expense."

George A. Weinman, of Lord & Taylor's Wholesale Department, expressed himself as follows:

"At one time there was a general practice to grade the price according to the standing of the customer, and where there was a greater risk, it was natural to exact a large profit. Special discounts seem to work in the same way."

In an address before the Chicago Sales Managers' Association held in Chicago, November 29, 1913, R. Esau is reported to have stated that "75 per cent or more of the members of the Chicago Sales Managers' Association seem to be of the opinion that quantity does rightfully control price." Other speakers at the same meeting opposed it in principle.

Reviewing the writer's testimony before the Judiciary Committee of the House of Representatives, March 19, 1914, the editor of the *New York Journal of Commerce* held that "quantity discounts breed monopolies."

It is obvious that the special or inside-price problem is a complicated one. It has many angles and what seems true and right for one concern or even for an entire line of industries may not be right for another.

The main arguments in favor of manufacturers and wholesalers making price-discriminations among retailers may be grouped under three heads, viz.— first, that the inside-price-giving system is expedient; second, that it re-

sults in certain economies to the seller; and, third, that it is not opposed to the best interests of the public.

Under the argument of expediency it is held that quantity prices, free deals, special discounts, and other concessions are customary. Dealers expect them and this fact makes it necessary for the seller to give them in order to avoid friction with the distributors. It is held that it is almost impossible for a new product to break into the retail markets without making special concessions, especially to some of the larger retailers, and that reductions thus made are equivalent to expenditures for advertising or for other special means to get distribution. There is no article so good that substitutes for it cannot be procured and sold to the public. In competition with other products it is necessary to do, not what seems to be the fairest thing for everybody, but what will get and keep a market. It is often necessary to subsidize or even bribe some retailers to get their interest and help in marketing goods. Having secured a market through a few dealers, it is always easier to place goods with other dealers, particularly among the smaller retailers.

The quantity price and free deal are held to be expedient because they stimulate buying. This gives the producer a chance to make more goods, and as the volume is increased, in some cases, the costs of producing each unit is reduced; therefore the reductions in price to a few dealers followed by greater consumption of the goods, may result in a greater net profit to the producer.

The quantity price is an easy, and in some cases, the only means of turning goods into immediate cash. The manufacturer who needs funds for use at once, may find it more advantageous to sell his goods at less than regular prices than to borrow money from the banks. In other cases, changes in demand, mistakes in production, and in judgment of what there is market for, leave the producers with sur-

plus stocks on their hands. To attempt to sell these goods at regular prices would be folly. The sooner they are disposed of the better. To sell them for what they will bring, often at greatly reduced prices, is the only remedy against complete loss.

Thus we see that there are several arguments for special price-making based on expediency, arguments that must be considered seriously. Trade naturally follows the lines of least resistance and question may be raised as to whether such lines should be blocked up or closed.

Another line of argument used by those who favor the giving of quantity prices, free deals, and other special discounts is that such discounts are usually payments for services performed by the buyer for the seller. The buyer who takes a large lot of goods off the hands of the seller saves for the latter the costs of storage, interest on the capital tied up in the goods, insurance from loss, damage, and depreciation of every kind, handling, and so on, expenses that would otherwise have to be incurred if sales had to be made in small lots. Since the buyer of the big lot saves these items for the seller, why should he not, it is asked, receive some reduction in the price which he must pay commensurate with those savings?

As already stated, the seller, particularly the producer who sells direct to retailers, frequently gives a number of articles free, or as a premium, with an order for goods from the retailer at regular prices. The extra or "free goods," as they are called, are usually given in consideration of the retailer performing some special service such as pushing the line whenever possible, recommending it to his customers or giving it a prominent place on his shelves and show cases, where it will be seen by all who enter the store. It is customary in many lines for the seller to throw in an extra

dozen to be used in a window display, and later to be sold and the full prices pocketed by the dealer.

As pointed out in another chapter, window space, as well as other store space, is valuable. The producer who desires preferred position for his goods either in the windows or in the store simply pays for the privilege in much the same manner as advertisers pay more for preferred space in newspapers and magazines. That this method of bargaining with producers of goods for a place in the store, if fully developed, may lead to new problems in retailing, it is easy to see; but that there is such a tendency at work among retailers to apportion their store space to goods according to their profit possibilities is obvious. Retailers must be paid for the services that they perform, and the remuneration may take the form either of cash, or of extra goods, not "free goods." For example, the producer of toilet soap may pay the druggist $6 in cash, or give $6 worth of goods for the use of a display window for a week. Such bargains are not uncommon, but in the case of the so-called "free deals," the business element is obscured by the language and methods of expressing the agreement. To illustrate, the salesman representing the producer may say to the dealer, "As a personal favor to you, I shall have my company throw in an extra dozen free with your order. Now, wouldn't you be willing to make up a good window display showing our goods for a week?" As a "personal favor" to the salesman, the dealer is satisfied with the offer, and trims a window for a week with that company's goods. Really there is a mutual exchange for a consideration, but in the language of common business, the extra goods thrown in constitutes a "free deal."

There is another reason urged by many producers for a quantity price. If the opportunity presents itself to sell

considerable amounts of goods in advance of manufacture, the producer not only saves the usual items of expense already enumerated, viz.— storage, insurance, costs of selling and handling, interest on the money invested, and so on, but he is also assured of a market for his goods whatever may happen. In some cases the sales of quantities permit the producer to use his plant to its full capacity all of the time, not only during busy seasons but during dull seasons as well. In cases like these the manufacturer is insured against losses due to changes in seasonal demand. Certainly, it is claimed, a quantity price is justifiable here.

Looking at the matter from the standpoint of public policy, those who favor quantity prices and price-discrimination urge that a single price to all is inequitable. Such a price, for instance, will make no distinctions because of differences in transportation and other costs. Some of them go still further and claim that the use to which the goods are to be put should be considered. If to be used by an ultimate consumer, the price should be different than what it should be if it were to be used by another producer. Prices to others in the same trade or profession should not be so high as to the general public. These views represent old customs among business people. While probably not as strong now as they once were, they are still prevalent.

There is also a feeling among producers that distributors who have been in the business a long time should have bigger discounts than newer firms. There may be some reason for this, based on difference in risk, but the risk factor alone will not account for "preferred lists" of dealers, "starred dealers," and other classifications sometimes made in wholesalers' and producers' account books. Aside from risk in dealing with a new firm, there is a sort of customary way of thinking that the retailer who has served faithfully for years is entitled to a little bigger "rake-off," not because he buys

larger quantities, but just because he has been in the business so long. This explanation reminds one of the explanation sometimes given by employers when they pay a much larger salary to an old employee than to a younger one who may be much more efficient in every way than the older one. As a matter of fact, such discriminations do exist, but to what extent the writer cannot say.

Some people argue that the quantity-discount system should be used much more than it is used for the reason that the competition ensuing would eliminate a large number of the smaller stores. This argument is based on the assumption that there are too many stores, and that any reduction of the number would result in savings to the remainder, and that through the competition of the remainder those savings would ultimately go to the public. If this assumption is correct, there is some argument for quantity prices along these lines. But that this assumption is correct, although commonly believed by many people, is open to question. It is not at all unlikely that the costs of distribution, taking all things into consideration, would be higher to the public if there were fewer retailers. This question is considered elsewhere. It may be pointed out in passing that if this assumption is not true then the argument for quantity prices fails entirely.

Those who oppose the quantity-discount, free-deal, and other special price-making policies also urge expediency, economy, and public welfare. But their observations of actual business and their conclusions therefrom are so different from those already cited, that reconciliation is practically impossible. One must choose from among them those which seem to be most nearly correct.

It seems clear that a one-price policy is highly expedient for certain classes of producers, and that far-sighted business managership will lead to its adoption. For example, a con-

cern that is well established, whose product is well known to the consuming public, and which does not need skilful salesmanship to move it over the retailers' counters, is in position to shut down on the more extensive forms of quantity or special discounts. If the product has a very wide distribution, most of it, say from 75 to 90 per cent of it, is probably distributed by small stores rather than large ones. But the few large stores are the only ones which can as a rule profitably take advantage of quantity prices and quantity discounts. These few large stores can, if they feel so inclined, cause much troublesome competition. The lower prices at which they buy may enable them to undersell the smaller competitors without loss to themselves. This situation creates a feeling of antagonism in the small dealers' minds towards this line of goods, an antagonism that may best be removed by putting all dealers, both big and small, on the same price basis.

Manufacturers of perishable goods, or goods that depreciate rapidly with the passage of time, must seek to get their product into the hands of the consumers as soon as possible after making. No other policy will insure the preservation of a favorable reputation for their brands. Under such circumstances it is dangerous to sell to any dealer any greater quantity than is necessary to keep him well stocked. Quantity discounts and free deals operate against this policy, hence are not only unnecessary but may be harmful to the producer in the long run. Breakfast foods are good examples of this class of goods and it is notable that the brands that have been sold under the one-price policy have been the most successful. It is also notable that one of the first, if not the first, big manufacturing concern in this country with a national distribution to sell on a one-price-to-all policy was a cereal breakfast-food maker.

There is a danger in giving quantity discounts that all producers who employ this policy must combat: The giving of quantity and special discounts leads to the temptation to discriminate more and more among buyers. It is difficult to draw the line between what may be done safely and what may not be done. In a recent article, appearing in a number of trade papers, signed by Edgar T. Welch, secretary-treasurer of the Welch Grape Juice Company, there appears this paragraph:

"Suppose a retailer could secure the lowest price on fifty cases, what should we say to retailers using or willing to use one hundred cases? And there are still larger stores or combinations of stores that can use five hundred, one thousand or more cases. Why should we stop with fifty cases? If the quantity-price idea were carried to its logical conclusion, there would be a price to fit every quantity." [3]

It appears that under pressure from competing buyers some manufacturers do give way more and more, until, finally, to save for themselves a profit from their business, either the majority of the buyers must be forced to pay more, or the quality of the product must be reduced and production cheapened. It is a current observation that price declines are very likely to be followed by quality declines, the only exceptions being first, in cases where the product is already at as low a quality level as will permit it to be marketed, and, second, where the producer's plant is equipped to make only a certain grade. To change to a lower quality would in the latter case probably be uneconomical. Quantity discounts and price concessions, according to this view, have unsettling influences that are likely to hurt the sellers as well as the buyers in the long run.

The quantity discount is held to be uneconomical because, as it is claimed, it causes a number of wastes. In

[3] *Twin City Commercial Bulletin*, Feb., 1914.

competition with big buyers, small dealers are forced to buy more than they otherwise should, or would, in order to get as low prices as their larger competitors. Large purchases made by small dealers tend to produce several bad effects. In the first place, such purchases tie up large parts of the dealers' capital that might otherwise be used elsewhere. The large stock of goods obtained means increased expenditures in taxes, insurance, storage or rent, and additional handling. The quantity of goods on hand prevents the dealer from keeping a wider variety of goods. These items of expense, however, are to be expected as a part of a quantity-price proposition, and may be considered as normal. The evils arise from the fact that the retailer may not be able to sell his purchases soon enough. Many goods begin to depreciate, particularly if the retailer does not have the right kind of storage place, and most of them have not. Groceries become stale, most goods lose their appearance of freshness, some go out of fashion, large stocks are much more subject to depredations of vermin, and so on. As a consequence the retailer is often forced to unload much of his quantity goods at cut prices or even at a loss. Unexpected needs for capital may force him to reduce prices to move his goods even when they have not depreciated. A large stock of goods of one kind on hand, moving slowly, has a peculiar psychological effect on the average retailer. As he sees the big supply of goods from day to day and notes how slowly it sells, he is likely to begin by wishing he were rid of it; later the wish becomes a fear that he will lose on it, and often he stampedes himself into selling it all off at deep cuts in prices.

Whatever the cause, the price-cutting results in a reduction of the market value of the goods in the minds of consumers that is very hard to build up to higher levels again. The same goods when offered at the regular prices are

taken very much more reluctantly than before, and substitutes are readily accepted. Thus the retailer's market for that particular article is shattered and the manufacturer is hurt still more. By his quantity-discount or free-deal policy, the manufacturer not only hurts himself for future sales, but also hurts a number of retailers, while the benefit to consumers through the price reductions are but temporary.

Because of the length of time a large quantity of goods must stay on a dealer's shelves before moving, and because of the hundred and one possibilities of depreciation and damage, a manufacturer's guarantee to the consumer is practically impossible if quantity-price policies are pursued. The relations of the producer to the consumer are cut off by the quantity deal. The responsibility of the producer is reduced and his purpose becomes more clearly to make goods to sell rather than for consumption. Of this class of business we have had plenty of evidence in the form of adulterations, misbrandings, and imitations. It would seem that the consumer would derive most benefit when knowing who the producer is and what are his claims for his goods. In other words the consumer must hold him responsible for his product. The quantity discount is therefore more generally associated with private brands and unbranded and unstandardized goods.

Another argument against the quantity-discount, free-deal, and special-discount policies is that every sale to a retailer becomes a dicker. But the retailer and his suppliers tend to concentrate their attention on price rather than qualities suited to the community in which the retailer lives. Since sales must be made by a bargaining or higgling process, economical short cuts in distributing goods become impossible. The only method that will work in getting orders from retailers who are accustomed to getting spe-

cial inside prices is to see them personally. The present costly method of sending out commercial travelers, or the more expensive method of retailers coming to market periodically, must continue indefinitely, whereas, under a uniform price system, dealers may order by mail or telegraph and know that they will receive as low prices and as many favors as any other dealers. Thus, it is claimed, that the quantity-price and special-discount policies stand in opposition to any progress in the direction of more economical distribution. They put a premium upon clever bargaining, subtle deceit, and personal influence, rather than upon business above board with equal opportunities for all.

From the standpoint of public policy the quantity discount and other like price concessions have not received the study that should be given to them. We have seen the diversity of interests and views both for and against these policies from the standpoint of private business. Certainly the ultimate consumers have some interests that need to be conserved and presented in such discussions. Very little attention has been given to these problems by economists or by men in public life. Very few facts have been gathered by anyone. Much must be done in the way of investigation before safe conclusions can be drawn. What follows is to be considered as a tentative point of view rather than a final analysis.

In the problem of quantity prices and special discounts, as in most other business problems, the public has two interests, viz., to get goods at the lowest possible prices consistent with the welfare of all concerned, and to see that fairness prevails among competitors in the production and distribution of goods. Every business policy must be tested by these two principles.

It has been shown that the quantity discounts, free deals, and special discounts of various kinds are generally given

to the big distributors rather than to the small. We have seen that, in some lines at least, purchasing in large quantities does result in savings to the producer, and that the buyer shares in such savings. In so far as the quantity discount merely covers such savings, there can be little objection. In such cases, storage, insurance, interest on the money invested in the goods, handling, selling in small lots and other costs are assumed by the buyer and must normally be met by him rather than the producer. Discrimination among buyers based merely on these items cannot be called unfair. Assuming that the ordinary costs of conducting retailing business are the same in both large and small establishments, any discounts that the big store buyer may get that simply cover the savings to the manufacturer in storage, insurance, handling, interest, and so on, will not enable the big store to sell the goods to consumers for less than the small store without loss. By taking over the large quantity, the big store simply undertakes to do its own storing, insuring and handling, work for which it must be paid; hence the result to the consumer will be approximately the same, whether the producer or the big dealer performs these functions. In other words, a quantity discount that merely covers the savings to the seller will not permit sales to consumers at less than regular prices, nor can this be interpreted as causing unfair competition among dealers.

The quantity discount or price concession that does make a difference to the public is one that goes much farther than the case just outlined. It seems to be customary in some lines and for some producers and wholesalers to grant discounts and prices to a few dealers that cannot be justified by any economic savings. It is to these that the term inside prices may be applied, and it is this form of quantity discount or price concession that must be subjected to scrutiny.

In the first place, such discriminations in price constitute a recognition of capital rather than ability. As pointed out in another chapter, bigness in a retail store is no guarantee of lower costs of doing business. Such concessions mean encouragement to the big store as against the small store, and have no necessary connection with efficiency of distribution. The store that receives the concessions does not necessarily transfer any part of them to the public in the form of lower prices. On the contrary, prices are cut only to draw trade, and only enough and on such articles as will draw the trade. Price-cutting as usually carried on does not benefit anyone to any considerable extent. The purpose of price-cutting must be achieved or prices will not be cut. With the exception of such cases as have already been referred to, when goods must be unloaded by the retailer, the deficits from cut prices must be made up by sales of other goods where prices are not cut. Thus, the cut price is simply a device for stimulating buying among consumers, or drawing trade that would otherwise go to other stores.

The producer who discriminates in his price-making in favor of the big distributor either tries to recoup his losses on his big sales by raising the price on his sales in small lots, thus making the discrimination still wider, or by seeking to economize in his productive departments. Sometimes both of these methods are operated. In the course of the development of some industries, improvements leading to lower costs of production are introduced, but in so far as these economies are passed on to the distributors, the larger purchasers and those on the preferred lists are likely to get the first, if not all, of the advantages, while the smaller dealers stay on the same price levels as before.

Small dealers recognize their inability to compete in buying with the more powerful and larger concerns, hence

there is constant friction and dissatisfaction in every line in which the inside price-giving policy prevails. It is recognized that the chief strength of many of the larger retailing institutions depends almost entirely upon buying some of their goods, at least, at inside prices. It is only natural, therefore, that retailers should combine in buying associations, exchanges, or pools, co-operative chain stores, and establish so-called trade relations committees in their national associations. By their united power they are able to command as low prices as the big retail stores. Competition then ensues between the big combinations for better prices, and so the contest grows ever keener.

Price-discrimination leads to the development of large-scale-buying concerns on the one hand, and to the elimination of the small independent retailers as such on the other. In distribution, as in production, price-discrimination tends towards consolidations, and these in turn breed still greater combinations. There are difficulties in the way of forming monopolistic combinations in the retail business that do not exist in production, but the retailing trust is not an impossibility. In any case, there seems to be a decided tendency towards larger organizations. This raises the question whether the small independent type of retailer or the larger concern can serve the public best; and upon one's answer to that question will depend one's conclusion as to whether the movement towards consolidation is a good or a bad thing.

In conclusion, it may be stated that certain forms of quantity discounts and other price concessions seem to be justifiable, especially when granted in return for services actually performed by the buyer for the seller. Certain it is that under present circumstances much of such discrimination is considered expedient even where its possible evils are clearly discerned. Neither the buyers, as such, nor the

sellers can remedy the matter. Both are forced by circumstances to continue as they have in the past unless prevented from so doing by society. The big buyer seems to be the starting point for most of the difficulty. With cash in hand and a demand for large amounts of goods, he has a power in the market that compels sellers to discriminate in his favor. The big order is a big temptation to many producers and competition does the rest.

The situation is very similar to that of the railroads and the big shippers before the Interstate Commerce Commission was created and clothed with enough power to prevent unfair discrimination in favor of the latter as against the great mass of small shippers. Every argument used in the public discussion of that question is applicable to this. That the railroads have been legally defined and set apart under the term "public utilities" does not alter the merits of the case in the least. There may be a difference in degree of public interest as between transportation and the distribution of goods, but even this is open to question. Certainly the latter affects as many if not more people, and more money is involved. It does not seem unlikely that the government will some day have to take upon itself the regulation of this great problem.

There is something about this question of inside prices that suggests unfairness. It is as if it were possible for a man to buy postage stamps in large quantities at reduced rates, or as if reductions should be made in a rich man's taxes just because he pays a large amount. As long as such price-making is permitted, dealers can hardly be blamed for seeking them, and if the small dealer cannot buy independently at prices that will permit him to compete successfully with the large dealer, we must not be surprised to see him unite with his fellows into combinations, either in the form of chain stores under corporate control, or in

co-operative organizations. What this movement will bring with it no one can foresee, but if one may judge from what has already occurred in some industries, such as oil, tobacco, sugar, and steel — industries in which price-discriminations led to larger and larger units — the public may well begin to take account of what is going on and prevent, if possible, the development of tendencies that may later have to be combated, as the country is now compelled to combat the big industrial trusts. As matters now stand, the inside-price problem is the most disturbing element in business. More of the evils of unfair trade can be traced to this as a cause than to any other single item.

CHAPTER XVII

THE FAILURE RATE IN THE RETAIL BUSINESS

One of the best means of obtaining a clear idea of the physical troubles of humanity is to study the mortality rate. From the death tables one may find something concerning the relative importance of the causes of death, and from the study of these causes, scientists and physicians have been able to find remedies and thus reduce mortality. In the same way a study of the failure statistics for retail stores will reveal not only the direct causes of failure, but may also lead to the discovery of methods of reducing the failure rate.

Failure in the retail business, as understood here, does not necessarily, nor even usually, imply bankruptcy in the legal sense. It simply means discontinuance of a business because of inability to conduct it so as to make it yield at least a fair wage to the manager and a fair rate of interest on the capital invested. By a fair wage is meant such a wage as the manager could command in employment elsewhere, and by fair rate of interest is meant the customary or market rate. The commonest type of failure in the retail business is where the manager of a store finds that he is "losing money," that he is meeting expenses out of capital and not out of earnings, and that the business is going backward with no hope of recovery. Sometimes it is discovered that a business cannot be made to pay and the decision to get out from under it is quickly made. In other cases, the final move is not made until the dealer's original

capital is almost if not entirely gone. Occasionally the loss involves not only the dealer's capital but also a part of the funds loaned him in the form of merchandise or otherwise by his creditors. In any case, the store is finally sold or disposed of, and its manager sets out to embark in something else.

The usual failure statistics issued by such concerns as Dun and Bradstreet comprise only failures in which creditors lose something. No account is taken of that very large class in which the dealers are able to satisfy their creditors, but lose part or all of their own substance.[1] The proportion of bankruptcies and failures of the classes enumerated by Dun and Bradstreet must clearly be very small, and, consequently, such figures, if taken to show the actual failure rate in business, are misleading.

Recently, an article was published and widely quoted, calling attention to the low proportion of failures to the total numbers of people in business as shown by Dun's tables. Upon this as a basis the estimates of a very much higher failure rate made by many experienced business men are criticized. That the word "failure" is used in an entirely different sense in each case is completely overlooked.[2]

So far as the writer has been able to learn, one of the first public statements in this country concerning the failure rate among merchants was made in 1840 by General Henry A. S. Dearborn, then collector of the port of Boston, in an address before the members of the Massachusetts Legislature. His statement was as follows:

"After an extensive acquaintance with business men, and having long been an attentive observer of the course of events in the mercantile community, I am satisfied that,

1 Bradstreet's "Failure Statistics — Their Meaning and Utility," 1910, p. 5.
2 *Printers' Ink*, March 5, 1914, p. 101.

among one hundred merchants and traders, not more than three in this city ever acquire independence. It was with great distrust that I came to this conclusion; but, after consulting with an experienced merchant, he fully admitted its truth." [3]

This statement was questioned and doubted by other men in public life in Boston at that time, and caused other investigations to be made. The results of these, though in most cases not so definite, served to corroborate General Dearborn's testimony, at least to the extent that very few of those who entered the merchandising business were able to make a success of it.[4]

A generation later, a study was made among the merchants of Worcester, Massachusetts. It was found that out of 56 firms doing business in that city in 1845, one-fifth passed out within five years, two-fifths within ten years, and three-fifths within fifteen years. Following this statement an estimate was made for the retail business in general, to the effect that, out of all who begin as merchants, at least 25 per cent fail within five years, 50 per cent fail within ten years, and 66⅔ per cent fail within fifteen years.[5]

In his testimony before the Industrial Commission in 1900, John Wanamaker stated that only about 4 per cent of all who embark in mercantile business succeed. At the same time he quoted A. T. Stewart, a former great retailer and wholesaler of New York City, who used to claim that only 2 per cent succeeded.[6]

Leroy Beaulieu, a great French economist, estimated that in France, out of a hundred new businesses, twenty fail soon after starting, fifty to sixty vegetate, or are able

3 *Hunt's Merchants' Magazine,* 15:475.
4 Freedley, E. T., "Common Sense in Business," 1879, pp. 185–7.
5 *Nation,* April 12, 1888.
6 Industrial Commission, Vol. VII, p. 452.

simply to hold their own, while from ten to fifteen are successful.[7]

David A. Wells, a well-known American economist of the latter half of the nineteenth century, estimated that at least 90 per cent of those who go into business fail.[8]

Professor Commons of the University of Wisconsin in his "Distribution of Wealth," page 202, quotes from some writer not named, that "10 per cent of the men who go into business succeed, 50 per cent vegetate, and 40 per cent fail." This statement is accepted as a basis upon which to build an economic doctrine concerning profits.

Plainly these estimates are in conflict with such statistics as those offered by Dun and Bradstreet, unless the latter are interpreted correctly. For example, for the year 1910 Bradstreet's showed that 11,573 firms out of a total of 1,592,509, or $^{72}/_{100}$ of one per cent failed. Dun's for the same year showed 12,652 failures out of a total of 1,515,143 firms of all kinds, or $^{80}/_{100}$ of one per cent. In no year since either of these two concerns have begun to collect statistics on failures have the percentages even equalled $1\frac{1}{2}$ per cent of the total number of concerns in any one year.

But for the year 1910, Bradstreet's tables show that over 321,000 names of firms were taken off their lists, amounting to more than 20 per cent of all the concerns in business failed during that year. In addition to these, a large number of changes were noted in firms, some of which, at least, must have been due to weakness and failure. No explanation is attempted for these.

To get a little more definite idea of the actual proportion of failures in the retail business, the writer undertook a study of the failures in his home city of Oshkosh, Wis-

7 "Repartition des Richesses," Chap. XI.
8 "Recent Economic Changes," p. 351.

consin, during the years 1911 and 1912. With the help of the city directories, lists were compiled of all persons who had engaged in certain lines of the retail business from 1890 down to 1912, and the changes in personnel from year to year were noted. By interviewing a number of the older merchants and other old residents of the city, the attempt was made to find out for each retailer who had discontinued business during the period under study why he had dropped out, so that the actual number of failures could be learned. The following represents the results of this study.

In order that the conditions of the city may be understood and that the figures showing the mortality rate of its retail business may be given proper weight, the following general facts are presented:

The population of Oshkosh in 1890 was 22,836; in 1900, 28,284; and in 1910, 33,062. It is located in the heart of a rich agricultural area of eastern Wisconsin, and is the county seat of Winnebago County. The population is made up almost entirely of whites of North-European extraction. Among the adults, foreign born are slightly in excess of native born of foreign parents; and this class is somewhat in excess of native born of native parents. Most of the foreign born adults of voting age are naturalized citizens according to the 1910 census report. Among the foreign born, Germans predominate, and among the native born of native parents, New England and New York strains prevail. According to the statement of an old merchant, "The Yankees, the Germans, and the Irish run the town."

From 80 to 90 per cent of the land area in the county is in farms, and the average value of farm land per acre was not far from $75 in 1910. Most farms run from 40 to 160 acres in size, the average size being 95 acres, and the average number of acres under cultivation, 68 acres.

About 20 per cent of the farms are managed by tenants. Milk and milk products, corn, oats, barley, and potatoes are the most important products.

The manufacturing industries of the City of Oshkosh employ over 6,000 people and a capital of $10,000,000; wages and salaries paid by these same industries amount to about $3,250,000 annually. The chief manufacturing industry is woodworking. A large number of the people employed are either unskilled or only semi-skilled.

There were 835 persons within the city paying an income tax for 1911. Out of this total, 132 retail dealers were income-tax payers, but 94 of these had other sources of income than their stores. Only 41 of the income-tax payers received their incomes from the stores alone. Among these, saloon keepers ranked highest with a total of 8, grocers came next with 5, and druggists third with 3.

The sales of the stores in the city in some lines, according to estimates made by leading merchants, amount to about $2,000,000 annually in groceries, including butter, eggs, fruit, and vegetables; $1,000,000 annually in dry-goods, notions, women's and children's ready-to-wear goods; $350,000 in men's and boys' clothing; $250,000 in shoes; and $150,000 in hardware; all at retail prices.

As an illustration of the probable power of national advertising in helping to determine consumer-demand, it was ascertained that there passed through the post office, approximately, the following number of magazines each month in 1911:

Woman's World	500
Ladies' Home Journal	400
Home Life	400
Designer	350
Delineator	300
Ladies' World	300
Pictorial Review	300
Woman's Home Companion	250
Housekeeper	125

Good Housekeeping	100
Harper's Bazaar	50
Everybody's	175
Outlook	250
Collier's	300
Literary Digest	150
System	50

In general these conditions are very similar to those of other cities of the Middle West, and no unusual or peculiar conditions, so far as the retail trade is concerned, exist. The town has had no booms within the period under consideration, nor any particular slumps. The population and industries of the city, as shown by a study of past censuses, have had slow gradual growths. In such a place as this, if anywhere, we should be able to find normal tendencies operating in the retail business.

The table on page 307 shows the number of retail dealers in the city handling the following lines of goods — groceries, shoes, dry-goods, men's clothing, hardware, furniture, and drugs. All other lines are omitted. After the date 1890 in the left-hand column of the table, appears first the number of dealers in business in that year. Following the line to the right, one may trace the gradual dropping out of the original dealers by noting the diminished numbers at each date. After the year 1893 in the left-hand column of the table, under the appropriate place, appears the number of new dealers found in the new 1893 directory — dealers who were not in the 1890 list. These new firms are followed through to the end of the period in the same way as those found in the 1890 list. The 1912 column shows the number remaining of each group. In the same manner, for each year in which a directory was issued, the number of new firms listed is noted and then traced down to 1912.

The table is to be interpreted as follows:

Of the total number of merchants in business in Oshkosh

in 1890, 145 in all, only 18 remained in 1912. Of the 43 new dealers who began business between 1890 and 1893, only 8 remained in 1912. Of the 61 who began between 1893 and 1895, only 9 remained in 1912. Of the 52 new ones listed in 1898, 13 remained in 1912, and so on.

Changes in Retail Dealers in Oshkosh from 1890 to 1912

	1890	1893	1895	1898	1900	1903	1905	1908	1910	1912
Exist'g stores, 1890	145	117	91	73	50	37	29	27	18	18
New firms, 1893		43	24	18	15	12	11	9	8	8
" " 1895			61	33	20	19	17	16	13	9
" " 1898				52	34	26	20	15	15	13
" " 1900					45	31	19	13	10	9
" " 1903						35	24	19	16	13
" " 1905							32	19	13	10
" " 1908								35	24	20
" " 1910									41	34
" " 1912										38
	145	160	176	176	164	160	152	153	158	172

It appears from the table that there was a general increase in the number of retailers from 1890 up to 1898, and then a decrease up to 1908, followed by another increase up to 1912. Clearly the number of retailers has not increased during the period as rapidly as the population increased. While population increased from 28,000 to 33,000 between 1900 and 1910, the number of retail stores actually decreased from 164 to 158.

The city was supplied with 145 retailers in 1890 and with 176 in 1895 and 1898. These figures represent the range. The average is nearly 162 for the period. To keep the city supplied with this number of stores during the period of 22 years, 526 people embarked in the business and invested their money and time. Out of these, 354 dropped out, leaving 172 at the end of the period. One of the remarkable things about the showing is the continuous inflow and outflow of people, keeping the total number en-

gaged in the business at any one time so close to the average.

To determine the causes of dropping out, the writer was able to get information concerning 201 out of the total of 354 who quit the business during the period. This information was gained largely from wholesale and retail merchants who had been in business during the entire period and had watched the development of the retail business and noted every change with a competitor's interest. Out of the total of 201, the general causes for dropping out of business were as follows:

CAUSES FOR DISCONTINUING BUSINESS

Cause	Number of Stores
Death	24
Retired because of ill health	1
Bankruptcies handled by courts	6
Failures or fizzles	124
Sold out, probably representing losses *	27
Sold out, representing gains †	14
Retired with competences †	5
Total	201

* According to the belief of the writer's informants, some loss, amount or extent not known, was involved in each of these.

† Success as defined by the writer's informants was often a very moderate thing. One of the merchants was able to buy and pay for a farm from the proceeds of his sale. Another of the retired merchants has an income of about $800 a year from his investments. The majority of the 14 went into other businesses. Some of the most successful merchants in the city are still in business, and are, therefore, not included in the table.

Out of the total of 354 who dropped out during the period, 153 could not be accounted for. Whether they succeeded or not could not be learned. It seems that most of them quietly disposed of their businesses and slipped out, and the changes in ownership of their stores were hardly noted by the people of the city. It seems safe to venture that none of them were very successful or they would have attracted the attention of competitors. On the other hand, if they failed, it was not probably failure that involved any

extensive loss to creditors, or the latter, particularly the Oshkosh wholesale houses — in the grocery line at least — would have recalled them more definitely.

In discussing the situation with some of the older merchants and with managers of wholesale houses, it seemed to be the general estimate that those who have entered the retail business in the city had, on beginning, sums ranging on the average from $300 up to $1,000 saved up from wages, or gained in some other way, frequently by inheritance; and that with this, and as much credit as wholesale houses would grant, they began business. A few, as we have noted, were able to make a success of it, but the great majority fizzled out. The majority of retail concerns in the city have a life of from less than a year up to 8 or 10 years, with the average centering about 6 years. More drop out during the first year than during any other year of trial.

The story of the retailer who fizzles out seems to be somewhat as follows: He comes into business with a capital of his own of from $300 to $1,000, usually gained from some occupation other than retailing. He spends a few years in the business, struggles hard to make it go, and then slips out with little or nothing of his original capital, and nothing but a bare living to show for his labor and often for the labor of members of his family also.

There seems to be a steady flow of capital, generally in small sums saved from other occupations, into the retail business. Here, in the course of a few years, it is consumed or lost, and those who contribute it are forced to get out and try other occupations again or work as clerks, giving the results of their experience to other retail store employers. The contributions of capital to other businesses from the retail business seem to be insignificant compared with what goes into it. It thus appears that under present

conditions, retailing is at least partly parasitic, though indirectly and involuntarily so.

Some light may be thrown on the sources of the capital put into the retail business by a study of what occupation each of the present owners of retail stores in Oshkosh came from preceding the present work.

Occupations of Oshkosh Merchants Before Going into Present Business

Druggists:	
Drug clerks	11
Jewelry:	
Watchmakers	6
General tinker	1
Tailor	1
Factory hand	1
Shoes:	
Shoe Clerks	11
Cobblers	6
Grocery clerk	1
Factory hand	1
Barber	1
Hardware:	
Hardware business formerly	2
Hardware store salesmen	2
Tinsmiths	2
Traveling salesman	1
Furniture manufacturer	1
Iceman	1
Clothing:	
Clothing store clerks	9
Dry-goods clerks	3
Grocery clerk	1
Saloon-keeper	1
Dry-Goods:	
Merchants before	3
Dry-goods clerks	3
Peddler	1
Grocer	1
Farmer	1
Shoe merchant	1
Carpenter	1
Housewife	1

Furniture:	
Cabinet makers	2
Clerks in furniture store	3
Factory worker	1
Farmer	1
Grocers:	
Grocery clerks	16
Factory hands	16
Housewives (widows)	9
Farmers	9
Grocers in other places	8
Butchers	4
Bakers	3
Milkmen	3
Carpenters	2
Traveling salesmen	2
Saloon-keepers	2
Musicians	2
Section man on railway	1
Teamster	1
Motorman	1
Blacksmith	1
Cigar-maker	1
Shoemaker	1
Machinist	1
Sewing machine agent	1
Policeman	1
Grain buyer	1
Coal merchant	1

The above lists also show that a very large number of those who go into retailing have neither experience nor knowledge of the business. "Anybody can keep store" is the slogan. It seems a matter for small wonder, then, that so few are able to succeed.

To determine whether the rates of change in the retail business in Oshkosh were any different from those found in other cities of the same class in Wisconsin, similar directory studies were made for Janesville and La Crosse for ten year periods each. The same lines were considered in Janesville as in Oshkosh, namely, grocers, shoe, hardware, furniture, dry-goods, men's clothing, and drug dealers. In the case of La Crosse, jewelers were added to the list. This addition is of no material consequence in the general results, however. The results were as follows:

Changes in Retail Firms in Janesville from 1890 to 1900

Total Retail Stores in	1890	1896	1898	1900
Total stores, 1890	63	31	28	23
New firms, 1896		48	29	23
" " 1898			17	6
" " 1900				25
	63	79	74	77

Changes in Retail Firms in La Crosse from 1893 to 1903

Total Retail Stores in	1893	1895	1897	1900	1901	1903
Total stores, 1893	181	124	108	95	82	71
New firms, 1895		55	29	23	19	16
" " 1897			33	21	17	14
" " 1900				34	17	14
" " 1901					31	14
" " 1903						35
	181	179	170	173	166	164

Changes in Retail Firms in Beloit between 1890 and 1900

Total Retail Stores in	1890	1896	1900
Total Stores, 1890	46	27	19
New Firms, 1896		25	15
" " 1900			22
	46	52	56

Changes in Retail Firms in Evansville between 1890 and 1900

Total Retail Stores in	1890	1896	1900
Total Stores, 1890	14	7	5
New Firms, 1896		10	4
" " 1900			6
	14	17	15

Changes in Retail Firms in Edgerton between 1890 and 1900

Total Retail Stores in	1890	1896	1900
Total Stores, 1890	21	9	7
New Firms, 1896		7	4
" " 1900			5
	21	16	16

Changes in Retail Firms in Clinton between 1890 and 1900

Total Retail Stores in	1890	1896	1900
Total Stores, 1890	15	8	7
New Firms, 1896		7	1
" " 1900			7
	15	15	15

From the foregoing it appears that retailers drop out at about the same rates in Janesville and La Crosse as in Oshkosh. The proportion of failures is probably the same. Similar results were also found for Beloit, and for the smaller towns of Edgerton, Evansville, and Clinton, all located in southern Wisconsin, showing that the tendencies for retail dealers to drop out of business are not only very high in such cities as Oshkosh, but also in the much smaller cities and country towns.

For the causes of failure among retailers we may refer to the classifications of Dun and Bradstreet. While these concerns count only failures of a limited class, the causes that operate to drive dealers over into this class of failures are everywhere operative and probably in about the same proportions as found by Dun and Bradstreet. These causes, stated generally, are as follows:

Bradstreet's Classification of Business Failures [9]

Beginners' Handicaps:	
1. Lack of capital	29.7
2. Incompetence	30.2

[9] Adapted.

(a) Inexperience	4.6
(b) Unwise credits	2.0
	66.5
PERSONAL FAULTS OF CHARACTER:	
1. Fraud	10.3
2. Neglect of business	2.0
3. Personal extravagance	.7
	13.0
FACTORS THREATENING SUCCESS:	
1. Competition	1.9
2. Failure of others	1.3
3. Speculation in other business	.8
4. Specific conditions (disaster, etc.)	16.5
	20.5

CLASSIFICATION OF CAUSES OF FAILURES IN THE RETAIL BUSINESS [10]

BEGINNERS' HANDICAPS:	
Lack of capital	29.5
Incompetence (including inexperience)	24.0
Unwise credits	4.4
General expense too high	3.0
Poor location	2.2
Expansion (branch stores)	2.0
	65.1
PERSONAL FAULTS OF CHARACTER:	
Fraud	4.0
Neglect of business	4.0
Personal extravagance	4.8
Intemperance	2.0
	14.8
FACTORS THREATENING SUCCESS:	
Loss by storm, flood, fire, etc.	3.8
Sickness	3.5
Failure of others	2.6
Speculation	2.1
Competition	1.4
Closed by "sharks"	1.2
Robbery of store	1.0
Death	.8
Loss in contracts	.8
Miscellaneous causes	2.9
	20.1

10 By O. W. Mayer, Credit Manager, Steele, Wedeles & Co. Adapted from *System*, Feb., 1914.

In conclusion, the failure rate among retail dealers is very high, probably higher than in any other phase of business of equal importance. But very few of the failures in the retail business reach the stage of bankruptcy proceedings. The large majority of such cases are averted by the dealer settling up or selling out before the crash. The fact that a large number of small dealers own only their stock and rent their buildings makes it easy to sell out and settle with wholesalers or others to whom money is due whenever the dealer finds himself going hopelessly backward. It is the business of the credit men of wholesale houses to watch over all concerns exhibiting weakening tendencies, and to shut off credit and make prompt collections as soon as the dealer's own capital begins to diminish. Thus, while the dealer may lose a large part or all of his own investment, the creditors may be able to come out of the settlement with little or no loss.

Most failures in the retail business are simply closed out in a quiet, informal way, and the public never learns just what the exact financial situation was. A new man with new capital seems to be ready to slip in and try his fortune as soon as the old dealer steps out. No lesson is drawn from the accumulated experiences of the vast number of failures that have taken place in the past. For the most part the system by which elimination takes place is such as to preclude the outside public from gaining from the experiences of others. Those who do know most about it — the wholesalers — find it contrary to their own interests to check people from going into business, even when the chances of ultimate failure are very great. A new store is a new customer, and the wholesaler considers that by keeping close watch of its development through his credit department, he may be able to pull out whole before the inevitable end. Besides, the final outcome is not always

failure in spite of all signs to the contrary. Some of these new men do make good, and it is worth while making them customers when they are just starting in business.

Failures among retailers are a continual source of trouble and expense to wholesalers, but the incentive to supply a new man with goods when he comes with cash in hand, and a certain line of credit for a while at least, is stronger than the incentive to advise him to keep out of the retail business. If one wholesaler does not supply him, another will. So, while wholesalers, as a rule, are vitally interested in seeing their customers succeed, they are not in position to act as judges on who should, and who should not, enter the retail business.

Relief, if it is to come, must come through a system of general, popular education through press and schools in the elements of distribution of goods, in the work that must be done in the vocations within this field, in the qualifications that are required of those who take up this work, and in the perils that attend it. Something could be done by means of public regulation, perhaps, through a license system, to limit the number of persons who are to engage in retail trade, and to give the opportunity to prescribe or insure that all of those who do enter shall have some fitness and necessary qualifications for serving the public properly. But it is not likely that such regulations of the retail business can be carried out in this country yet. The inherent belief in the freedom of industry and of trade that is the product of two hundred and fifty years of thinking among English-speaking people, will hardly permit any sudden change to a practice involving such regulation, no matter how necessary such a change might be.

CHAPTER XVIII

ARE THERE TOO MANY RETAIL STORES?

A belief is widespread that there are too many retailers. Not only is this view held by many popular writers, but also by many economists. Pizzamiglio in his "Distributive Co-operative Societies" quotes, among others, John Stuart Mill, to the effect that it would be possible to dispense with the services of nine-tenths of the English traders, and Thorold Rogers, to the effect that England could get along very well with one-fifth of the actual number of retailers. Leroy-Beaulieu and Roscher were also named as holding similar views for France and Germany respectively.

One might question the exact meaning of these statements. Did these critics of the retail-distributing system mean that the ownership of the existing stores might be consolidated to a very great extent, and thus reduce the number of retail store owners? Or, did they mean that there were too many retail establishments? Chain-store systems, co-operative distributive societies and, to a certain extent, the establishment of department stores, would be the remedy, if it could be shown that there were too many independent store owners. But if they meant, as it may be assumed here, that there were too many establishments, then the character of ownership would count for little. The remedy would be some form of regulation to prevent the number of stores from increasing beyond a certain number in each community.

One might also ask what is meant by the question, "Are

there too many retail stores?" Does it mean too many for the good of retailers themselves? Does it mean that there are more than necessary to supply all the demands for services such as retailers perform? Does it mean that if there were fewer stores the service performed would cost the public less? Obviously, if a retailer makes the assertion that there are too many stores, he means that if there were fewer he would get more business and more profit. An economist interested in the conservation and proper employment of all labor might assert that if there were fewer stores the labor of retail distribution could be accomplished by fewer people and consequently at lower social cost. The consumer wonders if the duplication of plants in the many near-by stores does not result in an additional burden of expense which is added to the prices he must pay for the goods he buys. It does not follow that the conclusions drawn by these three classes of people will agree. The purpose of this chapter will be to examine such evidence as is available in order to answer the question, if possible, mainly from the standpoints of the retailers and the consumers.[1]

As we have already seen, our statistical knowledge of the retailing business, in this country as a whole, is very imperfect. The only statistics that are available are the United States Census figures on occupations and the lists compiled from the Dun and Bradstreet mercantile reference books. Both are probably defective, the former in classification, and the latter through failure to list all persons engaged in the retail business.

The following table prepared from the United States Census report on occupations is serviceable. It indicates the total number of retail dealers, and the number of dealers

[1] A discussion of this subject appeared in *Women's Wear*, Dec. 4, 1914, written by Carl H. Fast. Mr. Fast concludes that there are too many department stores operating under out-of-date systems of management.

in selected lines for each census year from 1850 to 1910.

To its use the criticism might be raised that, at the start, we are confusing the number of merchants or retail dealers with the number of stores, that many of these merchants may be owners of more than one store. This criticism is valid, but it may be pointed out that there are no statistics whatever for the country as a whole showing the number of retail establishments. In further justification of the use of the table, it may also be pointed out that, at the present time, by far the largest number of retail merchants are owners of only one store. While there have been a large number of merchants who have conducted more than one establishment during the entire period, it is only within the last twenty years that chain stores and department stores have increased in great number. If the number of establishments controlled by such institutions continue to grow, statistics, such as these, will become more and more untrustworthy as a guide to the number of stores actually in existence.

Development of Retailing

As Shown by the Total Number of Merchants and the Number of Retailers in Selected Lines

Line	1850	1860	1870	1880	1890	1900	1910
All merchants *	174,102	267,921	357,647	479,439	691,325	833,212	1,004,153
Wholesalers	......	......	......	......	31,086	42,326	64,166
Grocers	24,479	40,070	74,410	101,849	114,849	156,479	195,432
Druggists	6,139	11,031	17,369	27,700	46,375	57,271	65,575
Shoe dealers	......	685	8,234	9,993	......	15,239	19.346
Clothiers	3,780	3,346	7,595	10,073	......	18,095	35,273
Jewelers	5,111	10,175	6,402	2,305	......	......	29,962
Dry-Goods	......	......	39,790	45,831	42,527	45,820	65,283
Lumber	......	......	9,440	11,263	......	16,792	26,485

* Including wholesalers.

This table reveals a number of interesting things. If it were entirely reliable as to classification, some interesting conclusions could be drawn from it. Some of the dis-

crepancies, however, are obvious. For example, the drop from 6,402 jewelers in 1870 to 2,305 in 1880, and then the rise to 29,962 in 1910 is incomprehensible. Many dealers were not subclassified by the census enumerators at all in each census, hence the discrepancy may possibly be explained by assuming that a large number of jewelers were enumerated under the head of "other dealers" in 1880.

The figures show steady increases in the number of dealers in practically every line. It is interesting to note that there were no shoe dealers reported in 1850, but that there were 685 in 1860, and over 8,000 in 1870. This period marks the beginning and rise of the manufacture of boots and shoes by machine methods. Before 1860, practically all boots and shoes were made by hand by shoemakers found in every village and requiring no stores or middlemen. The number of clothiers also increased rapidly during the same time, and for the same reasons.

Some light may be thrown on the question proposed by the title of this chapter by comparing the number of retailers at each census date with the total population and with the total number of persons gainfully employed. By means of such comparisons one may learn whether the relative numbers of dealers to total population and to the total number of gainfully employed are increasing or not. After such comparisons have been made and the tendencies noted, some attempt can be made to explain these tendencies, and to draw conclusions concerning whether there are too many retail establishments or not.

RATIO OF GROCERS TO TOTAL POPULATION

1850 — 1	grocer	to	960	people,	or	1.04	per	1,000	population
1860 — 1	"	"	750	"	"	1.30	"	"	"
1870 — 1	"	"	527	"	"	1.90	"	"	"
1880 — 1	"	"	490	"	"	2.04	"	"	"
1890 — 1	"	"	540	"	"	1.85	"	"	"
1900 — 1	"	"	423	"	"	2.36	"	"	"
1910 — 1	"	"	470	"	"	2.13	"	"	"

The census reports are somewhat indefinite upon the point, but it seems quite certain that the number of grocers indicated did not in any case include all who sold groceries, such as general-merchandise storekeepers, but only those who kept one-line grocery stores. It is to be noted that this number increased in proportion to population in every decade except 1890 and 1900. In that year it appears that there were fewer in proportion to population than at any time since the decade between 1860 and 1870. Why this should be so is not clear. It seems likely that the disproportionately small number of grocers indicated for that year may be explained by failure of the census enumerators to classify all grocers under this head. There is no reason, so far as is known, for any drop in the number of grocers in proportion to population for that period.

The following table probably represents the situation more accurately. In this case the total number of merchants is compared with the total population and with the total number of persons gainfully employed, and the total number of persons engaged in trade and transportation are compared with the total number of people gainfully employed at each census period.

RATIOS OF MERCHANTS TO POPULATION [2]

Year	Number of Merchants per 1,000 of Total Population	Number of Merchants per 1,000 of All Gainfully Employed in All Industries	Number of Persons in Trade and Transportation per 1,000 of All Gainfully Employed
1850	7.51	27.37	109.20
1860	8.52	29.03	97.38
1870	9.27	27.56	99.50
1880	9.55	28.00	107.60
1890	11.40	29.65	146.29
1900	10.97	28.66	163.96
1910	10.92	26.30	199.28

[2] The above table is based upon statistics given in the 13th Census of the United States, Vol. IV, Occupation Statistics. The totals of merchants are as given in Table 15. The term "merchants" here includes both wholesale and retail merchants. No separate classification of wholesale dealers appears in the census before 1890.

It will be seen from the foregoing table that the number of merchants increased relatively to population from 1850 up to and including 1890, but that the ratio decreased for 1900 and 1910. The decreases, however, are so small as to be practically negligible, and the conclusion seems warranted that beginning about the year 1890 the number of retailers in proportion to population seemed to remain stationary down to 1910. It is noteworthy that the greatest relative increases in the number of merchants came in the decades 1850 to 1860 and 1880 to 1890. The significance of these increases will be alluded to later on.

The proportion of merchants to all persons gainfully employed shows the same general tendency to increase as the proportion of merchants to population, with the exception of a peculiar rise from 1850 up to 1860, followed by a fall between 1860 and 1870. A marked increase in number of merchants in proportion to working population from 1880 to 1890 is found here as well as in the ratios of merchants to total population. But from 1890 down to 1910 the ratio of merchants to working population decreased quite materially. In other words, the total number of people going into industries of all kinds increased faster than the number of merchants.

The figures in the last column indicate the growing importance of trade and transportation among the industries since 1860. The high figure for 1850 probably shows the high tide of transportation by wagon, river, and canal, and, consequently, the great number of people required to transport goods. By 1860, for long distances, transportation by wagon had been largely surperseded by railroad transportation. The tendency of the numbers employed in trade and transportation to increase since 1860 is coincident with the development of railroad transportation on a large scale. In 1870, one out of every ten persons gainfully employed in

this country was engaged in trade or transportation. In 1880, one out of every nine, in 1890, one out of every seven, and in 1900, one out of every six, were so employed.

In Appendix III, "General Statistics of Retail Trade," the table "Average Population to All Kinds of Stores for Census Years" in Boston, shows a somewhat different tendency. In Massachusetts the number of stores decreased from 1 store to every 125 people in 1875 to 1 store to every 149 people in 1890, with a slight increase of one store to every 142 people in 1895. In 1880 the ratio in Boston was one store to every 141 people, while for the country there was one merchant or dealer for every 105 people. We need not attempt to explain this apparent discrepancy in numbers except to point out that the United States Census enumerated many dealers not counted at all by the Massachusetts Bureau of Labor Investigation. The important consideration in this comparison, however, is that in 1890 the ratio of stores to population had fallen to one to every 149 people, while for the country the ratio had increased to one store to every 95 people.

The explanation is probably this, that in Boston, a large and old, well developed commercial center, the centralization of retailing into larger stores had begun to take place, while the country as a whole, relatively young, expanding, and sparsely settled, had for the most part experienced no such tendency. Except in the large cities, concentration in the form of department stores could not take place. No check in the relative increase of retailers in proportion to population began to appear for the country as a whole before the decade between 1890 and 1900. During this decade the ratio of dealers to population in Boston actually increased. The reasons for this increase are not clear. A partial explanation may be found in the fact that during this decade a large number of immigrants began to pour

into the industrial sections of the city, bringing with them the European habit of trading at small shops and markets.

Whatever local variations there may have been, it is clear from the census that the number of retailers, and, presumably, the number of retail stores, increased very rapidly from 1850 down to 1910. Not only was there an increase in actual numbers, but also relatively to population, excepting the apparent tendency for the number of merchants in proportion to population to fall off during the last two decades. The fact that the number of merchants has increased lends color to the belief held by many that there are too many retail stores. Considered in an unqualified way this proposition has led to the judgment that the cost of distributing goods must of necessity be relatively higher today than it was forty or fifty years ago. Since there are more people engaged in the distributive business today than there were then, and since all of these additional people must be supported, this expense, so the reasoning runs, must be borne by the consumers. Assuming that the number of retail stores was quite sufficient in proportion to population in 1850 or 1860, it seems easy to jump to the conclusion that since there are relatively more stores now, there must now be too many. This conclusion should not be drawn, however, without question. For if it can be shown that there is now much more work to be done by retailers and that the former proportion of retail stores could not adequately handle the business that must now pass over retail counters, then there may not be too many retailers even if there are more than there were fifty years ago. This point needs study.

The function of the retailer is to distribute goods. Instead of comparing the number of stores with the number of people, it would be better to compare the number of stores with the amount of work done, that is, the amount of goods

sold by the stores. Unfortunately such a comparison cannot be made directly, for there are no statistics showing the amount of goods sold through the retail stores of the country for any year.

The nearest approach to an equitable basis for such a comparison that is available is the United States Census valuation of goods manufactured in this country, and the tables showing values of exports and imports.

Probably the greater part of manufactured goods and goods imported are sold to consumers through dealers. Obviously there are many exceptions. For example, large items in the total of manufactured goods such as foundry and machine shop products, iron and steel products, railway equipment, electrical machinery, illuminating gas, coke, etc., make up a considerable proportion of the total, but are not handled by retail stores at all, or at least to a very small extent. The figures representing the value of manufactured products as given by the United States Census do not represent merely the values of finished products ready for final consumption. The goods which pass through several processes of manufacture have their values counted in the totals for each process. But in making comparisons of the number of people in the distributing business with the total values of manufactured goods and imports, the goods not handled by retailers and the items of duplication in values found in the total of manufactured goods, may perhaps be assumed to have a somewhat constant relationship to the total values for the period under consideration. It is assumed here that any considerable change in the volume of manufactured goods and imports as represented by their values would be likely to have some appreciable and direct effect upon the amount of work to be performed by dealers.

It will occur to some at once that the items of merchandise included in the totals for manufactured goods which

are not handled by dealers may have increased more rapidly in value than other kinds of goods. A comparison of the census statistics for 1910 with 1900 does not seem to bear out this objection. For example, the value of iron and steel products in 1909 exceeded those of 1899 by about 65 per cent, but the percentages of increase for the same period was as follows for the following goods, all of which are handled by retail concerns of one kind or another: slaughtering and meat packing, 73.8 per cent; flour mill products, 76.2 per cent; cotton goods, 85.3 per cent; men's clothing, 75.4 per cent; boots and shoes, 76.8 per cent; bread and other bakery products, 126.3 per cent; and women's clothing, 141.5 per cent. It is believed that in spite of the many items under the head of manufactured goods not handled by retail dealers, the total values represent a fair basis of comparison when employed to show the increase in the amount of business that must be done by the retail trade. As an offset to large increases among manufactured goods not handled by retailers, one should remember that there has been a very rapidly increasing amount of farm produce entering into the system of distribution which does not appear under the head of manufactured goods at all. Among such products are vegetables, poultry, eggs, and fruit. It needs no citation of statistics to maintain that the volume of such goods handled by retail stores has greatly increased within the last twenty or thirty years.

It may be urged that the values of manufactured goods as expressed in 1910 are not fairly comparable with the figures for earlier decades because of the increases in prices. While the values have gone up, it may be urged, the volume has not correspondingly increased. This is a valid objection so far as it goes. If prices have gone up faster than the volume has increased, then there is some ground for the belief that the decrease in ratio between the number of mer-

chants and the total of manufactured goods is more apparent than real. It would take considerable statistical study to determine this point fully. It seems probable, however, that the effect of rising prices has been merely to qualify or limit the tendency of the volume of manufactured goods to increase more rapidly than the number of distributors. It must be left for some future statistician to demonstrate the truth or falsity of this position.

The following table gives the essential facts regarding the relations of the values of manufactured goods and imports to the number of retailers, to the number of commercial travelers, to the total number of people who are gainfully employed, and to the total population:

COMPARISON OF THE NUMBER OF DISTRIBUTORS

With the Total of Goods Manufactured and Imported, with Total Population and with Total Number of Persons Gainfully Employed.

Year	Manufactured Goods (000,000 omitted)	Imports (000,000 omitted)	Total Goods (000,000 omitted)	Number of Retailers	Number of Commercial Travelers	Total Number Employed in Trade and Transportation	Total Number Gainfully Employed	Total Population (000,000 omitted)
1850...	$ 1,109	$ 174	$ 1,193	174,000	....	582,000	5,330,000	23
1860...	1,886	331	2,217	268,000	....	802,000	8,236,000	31
1870...	3,386	418	3,804	358,000	7,000	1,244,000	12,506,000	39
1880...	5,370	446	5,816	479,000	28,000	1,872,000	17,392,000	50
1890...	9,372	745	10,117	691,000	59,000	3,326,000	22,736,000	63
1900...	13,000	697	13,697	833,000	93,000	4,767,000	29,073,000	76
1910...	20,672	1,312	21,984	1,004,000	164,000	6,252,000	38,167,000	92

A study of this table and the chart on page 329 shows an increase in every item mentioned, for each census year over the census year preceding. But manufactures and im-

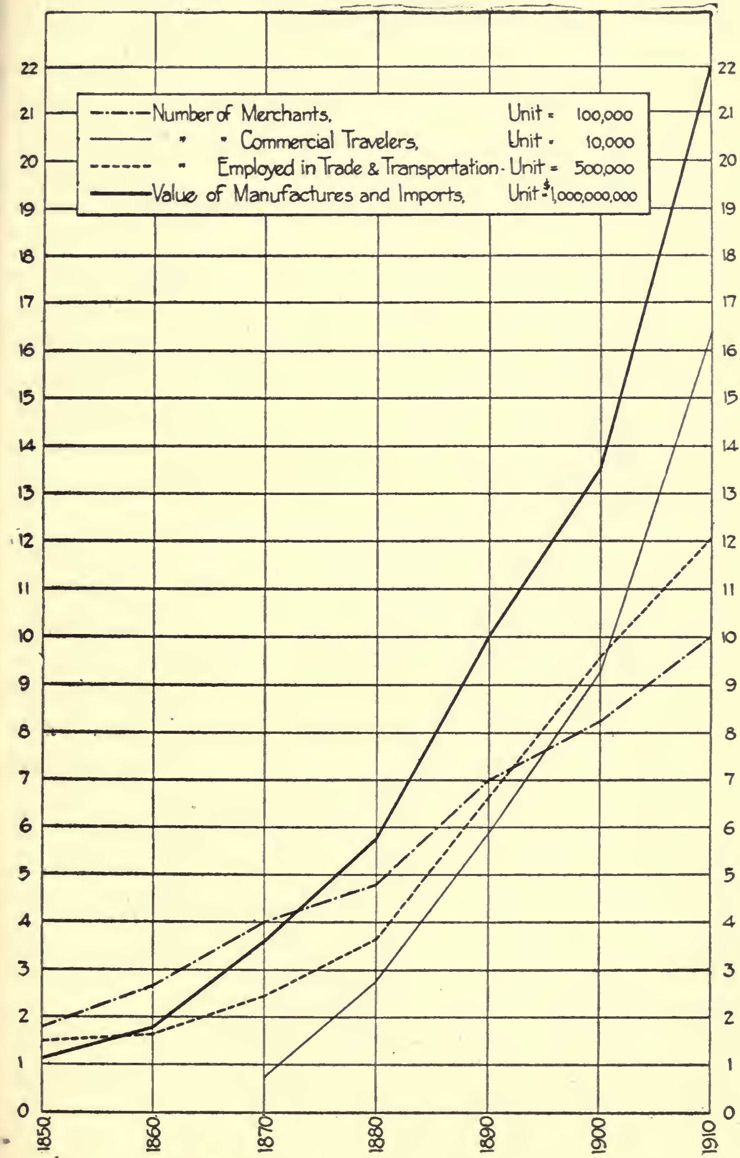
ports increased more rapidly than either the totals of persons in trade and transportation, or of merchants. The increase in the number of traveling salesmen, however, seemed to parallel the increase in manufactures and imports very closely.

By a study of the chart it will be seen that the abrupt expansion of manufactures and imports from 1880 to 1890 is accompanied by a similar increase in the total number of persons employed in trade and transportation, and also in the number of traveling salesmen. The number of merchants also increases, but not in such an abrupt fashion as the foregoing. From 1890 to 1900, manufactures and imports did not increase so radically as in the preceding decade. A similar decline in the rate of increase is to be noted for the number of merchants and the total engaged in trade and transportation. But the retardation is more marked for merchants than for the entire group employed in trade and transportation.

So far as the statistics go, it seems that the number of persons engaged in the marketing of goods has tended to increase with the amount of goods to be marketed, but the number of merchants and the total number of persons engaged in trade and transportation did not increase quite so rapidly as the volume of goods. Between the number of traveling salesmen and the volume of manufactures and imports, however, there is the closest correlation.

From the above it is clear that, while merchants and dealers as well as the total engaged in trade and transportation have increased faster than population, these classes have not increased as rapidly as the volume and value of goods that they have been called upon to handle. It would appear from the foregoing that each dealer handled, on the average, more business in 1900 or 1910 than in 1860 or 1870. In other words, while there were more dealers in proportion

COMPARISON BY DECADES OF THE NUMBER OF MERCHANTS, OF COMMERCIAL TRAVELERS, AND OF TOTAL PERSONS IN TRADE AND TRANSPORTATION, WITH THE TOTAL VALUE OF MANUFACTURES AND IMPORTS.



to population in 1910 than in 1870, for example, the dealers of 1910 were required to handle proportionately more goods. Consumers had become relatively more dependent upon retail stores for their supplies.

Some additional explanation may be necessary to make clear why more distributors are needed as the products to be distributed increase. It must be borne in mind that a very large proportion of the changes in methods of manufacture since 1850 have been due to the introduction of labor-saving machinery and to large-scale production. These changes have resulted in great economies such as a reduced cost per unit of product, but these economies in most cases could be realized only by developing wide markets. The distribution of goods directly to nearby consumers, as had been customary in the stage when hand production prevailed, no longer sufficed. Consequently, with large-scale production, have grown up great systems of transportation, of markets, and of middlemen.

Large-scale machine production drove independent producers using the older methods out of business. Many of these thereupon engaged in some specialized form of production as wage earners. In this capacity, they became more and more dependent upon retail stores for the goods they and their families consumed. As the class of wage earners increased, and as the specialization of industry went on, the number of people going to stores for the necessities of life increased. The old time self-sufficing home, in which all the food, clothing, and other goods consumed were produced by the family itself, passed away. Work at the factories for wages took the place of work at home and the retail store became the market for the exchange of wages for the necessities and comforts of life.

Factory production has been the chief cause of the growth of modern cities. But the greater the number of

people who live together in cities, the greater the work of distribution. People who live in the country, and even in small villages, are able to produce a great many things for their own use, such as vegetables, fruits, poultry and dairy products, meats, and, in some parts of the country, even fuel. It is also possible in rural communities and in small villages for the producers and consumers to come together frequently and make direct exchanges without the medium of middlemen. In cities, however, there is very little opportunity for a family to produce anything that it can consume directly. Nor is there very much opportunity for buying goods directly from producers. Everything that is to be used must be obtained from some dealer. The demand from cities for products suitable for consumption is spread over vast areas of territory, and, consequently, a need for an extensive and intricate distributing system is created.

The changes in the standards of living of the American people that took place between 1850 and 1910 have also had an important effect on the distributive system. At the latter date practically all people consumed a much wider variety of goods than at any time previously. Goods were purchased in much smaller quantities, therefore requiring more handling and care. In general, customers of retail stores required much more personal attention than before. These changes in the customer have helped to place a bigger burden on the distributive system.

Thus, as the area over which the distribution of goods has to be effected is enlarged, as a greater number of customers have to be reached, as the custom or necessity for purchasing goods at stores rather than making them at home has increased, and as city life has developed, the variety and total volume of manufactured goods distributed through retail stores has greatly increased, and the distribution of

the goods has become increasingly important, and has demanded the services of more and more people.

It has been noted generally that the costs of production both in factory and on farm have diminished during the period we have studied, namely, from 1850 to 1900. It has not been noted, however, that the increased production consequent to lower costs has made necessary a much wider distribution involving more handling, transporting, and selling. While the average costs of production per unit of product have decreased, the average costs of distribution per unit have probably increased for many though not for all goods. To make clear what is believed to be a fair representation of what has taken place, the following diagram may be used:

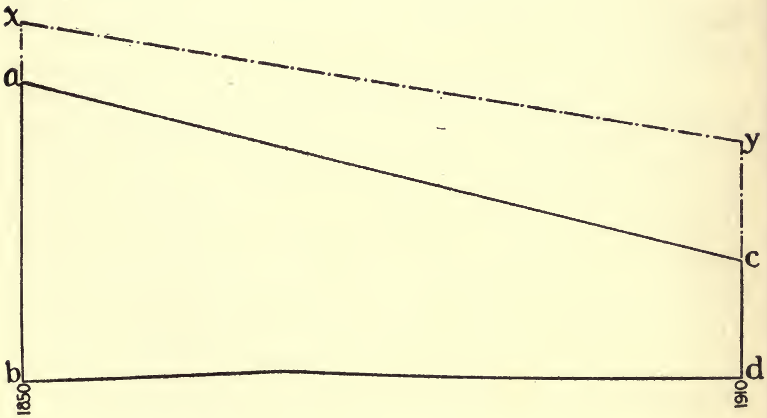


Diagram Showing Tendency of Costs of Production to Decrease, and of Costs of Distribution to Increase.

Suppose the line ab to represent the costs of manufacture of a given unit of goods, and ax to represent the costs of distributing that unit, in 1850. Let us assume that the costs of manufacture have decreased in the following 60

years so that in 1910 they may be represented by the line cd. In the meantime, for the causes already given, the costs of distribution have risen so that in 1910 they equal cy. The results are that the costs of the goods to the consumer equalled ab plus ax, or bx, in 1850 and cd plus cy, or dy, in 1910. Thus, while the total costs to the consumer have undoubtedly gone down during the period under consideration they have not gone down in the proportion that the costs to manufacture have decreased, for with decreasing costs in production there have of necessity come the increasing costs of distribution.

It is not to be supposed that the decreasing costs of manufacture are equalled by the increasing costs of distribution. If that were true, then there would be no incentive to install labor saving improvements, or construct larger plants. It is simply maintained that the full economies of modern, large-scale, factory production could not possibly be passed on in entirety to the consumer. It is even conceivable that in the development of a given industry the point may be reached where slight improvements leading to an increased and cheapened product may be entirely counterbalanced by the additional expense involved in marketing this additional product.

Increases in the number of retail stores in proportion to population are thus abundantly accounted for by the increased service that they have been called upon to perform. Whether there are now too many retail stores or not, it is certain that there is a necessity for more stores now than fifty years ago.

From the standpoint of the retailer there are too many retail stores. There would be too many if only half of the present number were in existence, for the presence of competitors generally means divided trade and less profit. From Chapter XVII, "The Failure Rate in the Retail Business,"

it seems clear that a somewhat less keen competition would insure many more retailers a fair living wage from their occupation and thus result in fewer discontinuances and changes in the personnel of the business.

From the standpoint of the public it is not so easy to pass judgment. It is true that the number of retailers is great and it is also true that the costs of distribution are high. But it does not appear that any other class than the retailers themselves would benefit largely from cutting down their number. The loss of the retailers due to their competition is largely the gain of the consuming public. If the number of retailers could by legal mandate be reduced by one-half, the results to the public would be a very general reduction in the amount of conveniences and services, such as retailers now furnish, and, very likely, an increase in the costs of distribution. Each store would be called upon to perform twice the service it now gives; but, if one may judge from the experience of present stores that have developed to twice or more times their former size, doubling the business of each store will not necessarily result in a reduced selling expense. Retailing is different from most other businesses in this respect that the small store can usually be conducted at a lower cost than a larger store. Unless other advantages, such as in buying or in advertising, may be gained to offset the increasing expense of the large establishment, there is nothing to be gained by increasing the business of a store beyond a certain point that keeps a small institution busy.

From the standpoint of certain classes of consumers with relatively high standards of living, a somewhat larger average retail business unit would be highly desirable. The extreme subdivision of the retail stores now found in most parts of this country, while not so great as in European countries, prevents each store from offering a wide variety

of goods. It also takes something more than the average amount of business at average profits to equip and conduct a modern meat or grocery store, for example, in a manner entirely satisfactory to such consumers. Refrigerators, automatic scales, electric conveyors for cash and parcels, marble-topped counters, plate glass and metallic fixtures, automobile delivery outfits, salespeople dressed in well-laundered white suits, absolute cleanliness, ornamental and artistic displays of goods, sanitary arrangements, and so on, constitute the necessities of a well-ordered, up-to-date food store such as these consumers would like to patronize. But to support a concern of this kind requires both a larger amount of business than the ordinary store gets and also a higher rate of gross profit. As the education of the consumers goes on, and as the standard of living rises, the demand for such stores as these will grow. One may expect to see their number increase even in competition with the smaller stores with the cheaper equipments, lower expenses of doing business, and lower prices.

In conclusion it may be stated that, from the standpoint of the entire public, there is nothing to indicate that the great number of retail stores adds anything to the burden of expense the consumer must bear. The high failure-rate in the retail business would seem to indicate that retail distribution is supported, in part at least, not by the consumers who patronize the stores, but by the great numbers who enter the business of retailing with capital accumulated in other occupations and then lose it in the retailing venture. The losses of dealers who fail are primarily the losses of the dealers themselves. Only in the most general way of speaking could one assert that the public must bear the burden. Certainly, no extra burden is added to the prices charged consumers because of the keenness of competition resulting from too many stores.

There are opportunities, however, of keeping down the costs of distribution which should not be neglected. The same inventive genius that has been applied to the production of goods so as to cut down the costs per unit can no doubt be applied in a similar way to cut down the costs of distribution per unit. What is needed is the application to distribution of science and research as these methods are now applied to production.

CHAPTER XIX

PUBLIC REGULATION OF THE RETAIL BUSINESS

The suggestion that retail stores should be regulated has frequently been made. Something is already being accomplished in this direction by states and municipalities through inspections designed to secure purity of foods, legal weights and measures, proper sanitary arrangements, sufficient protection from fire and from elevator accidents, and observance of legal requirements as to employees. Advocates of regulation go still further, however, and declare that the number of stores should be limited. By such regulation, it is maintained, the standard of retailing would be automatically raised, resulting in better working conditions for the retailers themselves and better service for the consumers. A business or license tax has most frequently been proposed as the means whereby such a limitation could be effected.

In order to understand fully what this proposal comprehends it will be necessary to give some consideration to the nature of business taxation.

"Business taxes" is an indefinite term covering what are variously called "license taxes," "business licenses," "business taxes," "privilege taxes," "occupation taxes," and so on. In a limited way nearly all states in the Union have some form of tax corresponding to some one or more of the above. The kind most frequently met with is the license fee or tax upon the manufacturers and distributors

of liquor. Only a little less frequently does one find that peddlers and certain forms of amusement enterprises must pay license taxes.

When the amount assessed upon any business or occupation is barely enough to cover "the legitimate costs of regulation and no more, considering all probable consequences,"[1] it is technically known as a fee and not as a tax. A tax presupposes a surplus of revenue above all costs of collection and other expenses incurred by the taxing body in its relations to the person or business taxed. But the popular use of the word "tax" includes both meanings.

A license has been defined as a "privilege granted by the State, usually on payment of a valuable consideration, though this is not essential. To constitute a privilege the grant must confer authority to do something which without the grant would be illegal; for if what is to be done under the license is open to everyone without it, the grant would be merely idle and nugatory, conferring no privilege whatever. But the thing to be done may be something lawful in itself, and only prohibited for the purposes of the license; that is to say, prohibited in order to compel the taking out of a license."[2]

Taxes, using the word in the popular sense, may be collected by a state either under its taxing power or under its police power. Under the taxing power the state secures its general revenues. This power, which is of very wide scope and subject only to constitutional and statutory limitations, may be applied in almost any way. The only limitations under most state constitutions and in court practice are that the tax must be uniform and must not be oppressive.

Under the police power, which "extends to the protection of the lives, health, and property of the citizens, and

1 "Cooley on Taxation," p. 1138.
2 Id., pp. 1137–8.

to the preservation of good order and public morals," [3] any state can license any occupation which can be shown to need regulation. In such cases the amount collected for licenses is such as is judged will pay the expenses of regulation. Frequently, however, these two powers of the state are combined in the same act, and the result is taxation for revenue and for regulation at the same time. In these cases the amount collected is something more than a fee. It is in fact a true tax.

"Business taxes" may be collected either as an amount payable periodically in the same way as any other general tax, or as a payment for a license. This is a technical distinction that is necessary to an understanding of how the license system works. If a tax is not paid when due, the business upon which it is levied does not thereby become unlawful, but the tax must be collected through the same channels as those prescribed for other general taxes. Under a license system, the payment for the license must be made before the business can lawfully begin. The common business tax, like a property tax, is payable after the business has come into existence, but the license payment must be made before anything else can be done in the business.

The purpose of the business tax may be either to secure a revenue for the government or to regulate the occupations or businesses subject to the tax. The latter is, obviously, the aim, at least in part, in most communities where saloons are required to pay a license fee. For similar reasons, bowling alleys, billiard halls, and theatres are often required to take out licenses since there is commonly some necessity for regulation in connection with the conduct of such establishments.

In some cases, the aim of the business tax is to prohibit the business or occupation entirely by fixing the tax so high

[3] Davock *v.* Moore, 105 Mich. 120.

as to make it unprofitable, or undesirable, to continue in it. Lotteries, gambling houses, bucket shops, and also saloons have in some cases thus been taxed out of existence. Prohibition of such institutions by taxation, however, is an indirect method that is not at present strongly favored. This method usually results in failure to prohibit. If the tax is not placed high enough, the business will continue to exist, and if it is made too high, practice shows that the tax will be evaded.

A business tax or license system could be used to build up a monopoly. A tax of such nature is that imposed by the National Government of 10 per cent on the note issues of state banks. The rate is prohibitive and gives to the national banks the monopoly of issuing bank notes. At one time it was common for European sovereigns to grant patents or licenses to private individuals in return for high fees or payments, giving those individuals practical monopolies of certain businesses in certain communities. Such grants were prohibited in England in 1624, and in this country such acts are forbidden by the constitution.

Practically, however, a high license or business tax system may have the effect of granting a partial monopoly, for the reason that, while the privilege may be exercised by anyone upon the payment of a fee or tax, it may not be profitable for more than one to procure the license and engage in the business, consequently that one gains practical control of the trade in that community.

A business tax may be levied for the purpose of protecting local industries or businesses by preventing competition from outsiders. The license tax required of peddlers comes under this head. The local merchants of a town are protected to the extent that the tax deters peddlers from engaging in this form of traffic in that community. The house-to-house method of selling has certain advantages,

however, that may make it profitable for a peddler to go on with his business even if he must pay a high tax. The occasional peddler who does pay it reaps another advantage due to the fact that his competition with other peddlers has been materially reduced. This point explains why peddling does not entirely cease even when the peddler's tax is placed at a very high figure.

Some writers on taxation have held that peddlers render to the consuming public a service of superior value, a service that is much demanded, and that, on this account, peddling is difficult to suppress or restrict. In accordance with this view it has been held that the tax on peddlers should be made low. Professor T. S. Adams held this view some years ago,[4] and J. W. Sullivan, in "Markets for the People," urges that all bars or restrictions on peddling be let down.

A business tax is frequently levied upon certain classes of individuals, particularly those engaged in certain professions which might otherwise escape payment of taxes. For example, a lawyer might enjoy a handsome income, but have no assessable property that an ordinary tax could be collected upon. A business or professional tax would be the means of making him pay a direct contribution to the public funds. The tax on peddlers, already referred to, is, in a certain sense, such a tax also. Justice is preserved between the local merchant who must pay property taxes and the itinerant peddler who has nothing taxable under the general property tax as ordinarily administered, by assessing the peddler a special license fee or tax.

The following quotation from the Cyclopedia of Law and Procedure[5] will give some idea of the scope of the business tax, and the number and kinds of businesses and

4 Hollander, "Studies in State Taxation," pp. 45–51.
5 Vol. 25, pp. 614–621.

occupations that may lawfully be subjected to a business tax.

As proper subjects for license or tax the following occupations or privileges have been sanctioned by the court. Any commercial or professional business; corporate franchises and privileges; dealing in "futures"; the keeping and use of animals; the keeping of billiard or pool tables for profit; the keeping of bowling alleys; keeping concert and dancing halls; keeping laundries; keeping a restaurant; mechanical trades and pursuits in general; mercantile business in general; publishing a newspaper; raising or grazing sheep; sales of goods; sales on exchanges; selling certain publications; selling foreign merchandise; selling newspapers; selling to employees or tenants; theatres and shows; vehicles and means of transportation in general; vehicles used in carrying passengers or property for hire or profit; vehicles used by merchants or manufacturers in their own private business; and vessels. And among the persons whose occupations have been declared to be properly subject to license or tax are the following: architects; attorneys; auctioneers; bakers; banks; bill posters; brewers; bridge companies; brokers; carriers; cigar and tobacco dealers; confectioners; corporations; dairymen; dealers in or sellers of oleomargarine; dealers in second-hand goods; dealers in trading stamp enterprises; dentists; detectives; domestic corporations; druggists; drummers and canvassers; emigrant agents; employment agents; express companies; factors and brokers; farriers; ferries; foreign corporations; foreign insurance companies; grocery dealers; hawkers and peddlers; hospitals; ice dealers; inn keepers; insurance brokers or companies; itinerant merchants or traders; junk dealers; dealers in second-hand goods; keepers in gaming houses; liquor dealers; livery stable keepers; lumber dealers; manufacturers; meat dealers; merchants; milk dealers; money lenders; note shavers; packers and carriers of oysters; patent medicine venders; pawnbrokers; persons dealing in food; pharmacists; photographers; physicians and surgeons; pilots; pipe line companies; sewing machine agents; soda water dealers; steamship companies; street railroad companies; teachers; telegraph and telephone companies; turnpike companies; venders of lottery tickets; warehousemen; water companies; and wood dealers.

The methods of assessing the amount of the license or business tax vary greatly and it is more than likely that the success of business taxation is modified by the kind of base or basis selected in administering the tax. The following methods are current:

1. In proportion to the average value of the stock in trade or equipment for doing business.
2. In proportion to the annual purchases.
3. In proportion to the total sales, gross receipts, or income. This is virtually an income tax applied to businesses.
4. In proportion to gross profits variously defined.
5. In proportion to net or divided profits.
6. In proportion to the rental value of the properties used by the business.
7. A fixed amount upon an occupation.
8. A fixed amount upon an occupation based upon the size of the town, or upon other trade advantages.
9. A progressive rate based upon the volume of the business.
10. A progressive rate based upon the number of lines of goods handled, as for example on department stores.

In some of its forms at least, the business tax is easy to levy and easy to collect. Naturally it has been widely used for fiscal as well as for regulative purposes. It has often served countries as well as municipalities in times of financial stress. In some countries, as for example, in France, Prussia, and Canada the business tax occupies an important place in the fiscal machinery of the government. In many parts of the United States, it supplies important additions to the public funds. Brief descriptions follow of the French, Prussian, and Canadian systems.

In France, the business tax (patente) was first collected in 1791 and has been continued down to the present, but with many modifications. Practically all persons employed in gainful occupations are called upon to contribute. The method in which it is apportioned is somewhat complex.

Part of it is fixed in amount, depending upon the kind of business, the number of employees, if a department store or other like concern, the population of the community served, and some other considerations. The other part of the tax is variable and is dependent in amount upon the rental value of the property used by the business.[6]

Prussia followed France's example and enacted a law for a similar tax (gewerbesteuer) in 1810. But the present basis of the Prussian tax is in all cases either the annual profits or the capital of the individual business. Wherever it is possible to determine the earnings or profits, these are taken as the base, but where such information is not available, the capital value is taxed. The amount of the tax placed on the capital value is made to correspond as nearly as possible to the amounts collected upon the basis of earnings or profit from concerns with the same capitalization. The Prussian tax is essentially a tax on the profits of business or industry.[7]

In 1896 Prussia passed a law laying a special business tax on department stores. Three years later Bavaria did likewise. The French business tax, just referred to, had already been applied to such institutions. The German statutes were enacted in response to a cry for help from the small dealers who were losing ground in competition with the new and rapidly-growing department stores. The acts were aimed to check these institutions and to protect the small shop-keepers. A department store was defined, and a progressive tax laid on sales amounting to more than 400,000 marks per year. The amount of the tax levied by Prussia on department stores is comparatively small. Beginning with one-half of 1 per cent for sales of 400,000 marks, the rate increases as the sales increase up to a maxi-

6 Bullock, "Selected Readings in Public Finance," pp. 321–328.
7 Id., pp. 328–336.

mum of 3 per cent of sales. No store, no matter how great its sales may be, is required to pay a greater percentage than this. The French method of taxing department stores differs from the German method in that the number of employees, rather than the volume of sales, serves as the basis upon which the tax rate is progressively increased.[8]

In Canada, the Province of Ontario levies a tax on business proportional to the rental value of the property in use; but there is a rating of businesses so that the retailers pay on 25 per cent, wholesalers on 75 per cent, manufacturers on 60 per cent, and manufacturers and wholesalers of liquors on 150 per cent of this rental value. As between retailers and wholesalers, the theory is that retail stores occupy so much more valuable land than wholesale stores that this should be taken into account in fixing the tax. In Winnipeg, retail stores were assessed from 1893 to 1906 at the rate of about three cents per square foot of store floor space. The act providing for this assessment did not prove entirely satisfactory, and in 1906 a change was made to the Ontario plan.[9]

In the United States the Federal Government has at various times resorted to business taxation, particularly during times of financial need. For example, in 1862, there was laid a business tax affecting 480 occupations calling for payments from each of from $5 up to $500.[10] The measure was entirely for revenue purposes, although certain businesses, such as those that handled liquors and tobacco, were required to contribute at higher rates than the others. After the war, the taxes were removed from most businesses, and greatly reduced on liquor and tobacco businesses. The taxes on liquor and tobacco dealers have continued

8 Hill, J. A., "Taxes on Department Stores," *Quarterly Journal of Economics*, 15:299–304.

9 "International Conference on State and Local Taxation," 1908, pp. 286–288.

10 Redfield, A. A., "Handbook of the U. S. Tax Law of 1862," pp. 115–121.

down to the present. As these business are almost universally taxed within the states also, it has not infrequently happened that the same business has had to procure and pay for as many as three or even four licenses — Federal, state, county, and municipal — before beginning business.[11]

In 1898, during the Spanish War, Federal business taxes were again collected, but in this case, in addition to liquor and tobacco businesses, only on bankers, brokers, pawnbrokers, and places of public amusement. After the war these latter were removed.

At the present time business taxes form a part of the regular state revenue-producing systems in Alabama, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Pennsylvania, Tennessee, Virginia, and West Virginia. This list includes all of the Southern states except Texas which repealed all business tax laws in 1907, and South Carolina, which permits all license fees to go into the county funds.[12]

In a considerable number of states other than those named, the privilege of collecting business taxes is granted by the state to the municipalities, and a great number of the latter have availed themselves of this means of increasing their incomes. By far the greater portion of the funds from this tax never get beyond the local public treasuries named.

"About 12 per cent of the state tax receipts in 1902 came from licenses and permits, and taking the state and local governments together the revenue from this source amounted to $75,000,000, of which $55,000,000 came from liquor licenses." [13]

Among the larger cities in the country where business taxes are collected, the percentages of total revenues ob-

11 Ely, R. T., "Taxation in American States and Cities," p. 203.
12 "Wealth, Debt and Taxation," Spec. Report, U. S. Census, 1907.
13 Ely, R. T., "Outlines of Economics," Revised Edition, p. 648.

tained from this source, for the year 1907, were as follows: [14]

	Per Cent
Kansas City	18
Atlanta	12
Savannah	20
Norfolk	26
Charleston	11
Birmingham	37
Mobile	30
Augusta	12
Montgomery	33
Jacksonville	26
Knoxville	15
Macon	18

In the states where business taxation prevails, a great number of different occupations and businesses are taxed. The United States Bureau of the Census enumerated 188 different classes with several sub-classifications in its special report, "Wealth, Debt, and Taxation" in 1907. No state system includes all of these. Mississippi taxed 119 occupations some years ago [15] and Louisiana has a constitutional provision permitting the legislature to lay a tax on all occupations whatsoever, except clerks, laborers, clergymen, school teachers, and those engaged in mechanical, agricultural, horticultural, and mining pursuits, and manufacturers other than those of distilled, alcoholic or malt liquors, tobaccos, cigars, and cotton seed oil.[16] Many cities extend the business tax system even farther than the states do. Wilmington, North Carolina, formerly taxed 124 classes

[14] "Statistics of Cities," Special Report of U. S. Census, 1908, from Table 37.
[15] Hollander, "Studies in State Taxation."
[16] Millis, "Business and Professional Taxes," *Journal of Political Economy*, 16:76–87.

of occupations, and Atlanta enumerated 466 taxable items under the head of business taxes.

Among the specific occupations or businesses taxed, saloons and liquor businesses head the list. There are probably no communities in this country where saloons are not licensed except where prohibited entirely. Amusements, traveling vendors, and auctioneers follow next in order. It is evident that regulation is the chief aim in taxing these classes. The revenue feature, however, is not unimportant.

Who pays the business tax, the retailer or the consumer? There is not enough direct evidence at hand upon which to base a conclusive answer. There is a good deal of disagreement among both economists and business men about the matter. According to Seligman,[17] under competitive conditions, a tax on profits tends in the long run to be shifted to the consumer, while under monopoly conditions, if the demand is elastic, and if the monopoly price has already been reached, the tax will not be shifted.

It is common observation among economists that a tax of a fixed amount on an occupation is generally not shifted if the amount of the tax be small. Practice has shown that prices tend to remain at customary levels after the tax is laid. But when the tax is high it is generally shifted.

Certainly such a tax would be considered an expense of the business under most mercantile accounting systems, and in fixing selling prices, the business tax would be considered and, if possible, would be prorated in some way over all the goods offered for sale. If the concerns do not succeed in getting the prices asked for the goods, and, therefore, have to mark them down to lower figures in order to move them, obviously the tax falls upon the merchant. But the more successful merchants, it is quite likely, will be able to shift the tax, and those who can not do so at one time or in one

17 Seligman, E. R. A., " Shifting and Incidence of Taxation."

season will seek, by making changes in their stock or in their selling methods, to increase their net profits to some customary point over and above all expenses of the business, including the tax.

The problem of shifting and incidence as applied to most businesses is exceedingly complex. Professor Seligman's analysis, while probably theoretically correct, throws but little light on the concrete instance. If the retail store manager finds that he is not making the usual profit, he may blame his purchases, and seek to buy thereafter such goods as will yield a profit above all expenses of the business. In marking the prices on his goods, he usually makes allowance for all expenses of the business including taxes of various kinds, and when some goods cannot be sold for prices bearing the full store burdens, others goods are selected and priced so as to make up the deficits. In an ordinary merchandise assortment there may be some goods sold which do not pay even the direct expenses of handling, while others may yield profits several times the amount of these expenses. Since there are so many different articles to be priced and sold in a retail store, since qualities and cost prices differ so widely, and since there are other factors entering into retail merchandising besides price, such, for example, as service, custom, and convenience, it is exceedingly difficult to determine whether a specific tax in a specific instance is shifted or not.

There are undoubtedly some retailers who could not shift a business tax; namely, those on the margin — those barely able to make ends meet before the levy of such a tax. Naturally the tax, if considerable, would drive such dealers over the line into failure or bankruptcy. In these cases, however, the tax may be considered only as a last straw to an already overheavy burden.

Opponents of regulation by means of business license

or taxation assert that business taxes have the tendency to overburden the small dealer while not making much difference to the bigger merchant. It is also asserted that a business tax, especially when in the form of a license, if considerable, makes it difficult for beginners to get a start, since such a tax must be paid before the business can begin and usually amounts to the same in the early stages of building up a business as it does after the business is well established. Such a tax also checks free movement from one occupation or business to another, and therefore prevents individuals from seeking better opportunities and making the most of themselves. A business tax, if made heavy enough, unquestionably reduces the number of persons in the particular business that is taxed.

Are these criticisms valid and important? That a business tax, if heavy enough, will tend to make it more difficult to enter the retail business is admittedly one of the reasons for such a tax. But any means that would effectually close the door of opportunity to all who aspired to become retailers in a community would be obviously unfair and unjust, not only to individuals, but also to the community itself. Any measure proposing such radical exclusion should meet with failure. But total exclusion is an entirely different matter from a limited regulation of the number.

It is held by those who favor regulation that the business tax, if used to limit the number of persons who may engage in retailing, will simply eliminate those who are now nearest the margin and not the successful concerns, presumably managed by those best fitted for the work. It may be questioned seriously whether an absolutely unrestricted freedom of entering any business is an unqualified benefit either to the persons entering or to the general public. So far as the retail business is concerned, such freedom en-

courages persons without the necessary ability, training, or capital to rush in and waste their energies and substance, and, after their failure, to be followed by a stream of other incompetents. Among the results of this course of events is a constant disorganization of the retail business, frequent occurrences of unfair competition, and generally unsatisfactory service to the public.

Professor Seager argues for the business license system as follows:

Retail trade, whether in liquors, or in drugs, milk, ice, groceries, provisions, or even merchandise, is strikingly wasteful when exposed to the effects of an unregulated competition. The needless multiplication of stocks and selling places, the reckless entry into the field of men with little capital and less experience due to the feeling that "any one can keep a store," and the losses which result owing to the fact that only competent persons can make store-keeping pay, the costly duplication of distributing machinery — all these aspects of retail trade supply telling arguments against a competitive organization of industry. The high license system, although not primarily intended for that purpose, substitutes regulated for unregulated competition. It is believed to be within the truth to claim that more than half of the revenue that the government derives from license taxes is wealth that without the moderate regulation the system imposes would have been wasted in vain competition. The incidence of the remainder of the tax is similar to that of excise or customs taxes. In the case of liquor licenses a part of it is probably borne by the holder of the license and part of it by the consuming public in the slightly higher prices they are required to pay for the same quantity and quality of liquor.[18]

Experience with it (the liquor license) in operation has made prominent certain economic advantages which suggest the desirability of applying it to many other branches of trade. The selling and distribution of milk, ice, groceries, provisions, etc., admit of even larger savings through the concentration of management brought about by the high license system than the selling and distribution of liquors. These businesses offer a large and practically untouched field for the tax gatherer and just as the payment of high licenses has served neither to make the saloon business unprofitable nor to compel the consumer to pay much more for his beer and whisky so it is believed that the payment of high license by milk dealers, ice companies, grocers, butchers, etc., would serve merely to concentrate these businesses into fewer and

18 Seager, "Introduction to Economics," pp. 560–561.

more competent hands without appreciably raising the prices of the commodities sold. By extending its license system to include these and other businesses, every state in which large cities are found could put itself in a position to dispense with the returns from the general property tax.[19]

That the business tax does under most circumstances limit competition, especially if made high enough, has been proved by experience. For example, the German department store tax laid for the purpose of checking the growth of the department stores in order to help the small shopkeepers has, according to reports, resulted in considerable benefit to the department stores themselves by discouraging other firms from entering the field and thus giving the stores already in existence control over the entire trade.[20] Many other examples of the restriction of competition could be drawn from all parts of this country wherever the license tax has been employed. In some cases the increase of volume in business and the resulting increase in profits accruing to the remaining firms who pay the tax have been sufficient to make entirely unnecessary any increase in prices of the goods sold to the consumers.

If regulation of the retail business is to be attempted, no other plan suggested so far seems so easy to apply as a license system. Through its use the number of retailers could be limited, and, if thought best, certain qualifications necessary for efficient retailing, such as knowledge, experience, and a minimum amount of necessary capital could be required. Regulation might be carried still further through this means, as for example, setting standards of service, and supervising price-fixing. It is not urged that all of these measures are either necessary or desirable, but,

19 Seager, "Introduction to Economics," p. 584.

20 Gehring, Hans, "Die Warenhaussteuer in Preussen, Ein Beitrag zur Kaumännischen Mittelstandspolitik," 1905, pp. 65–72.

simply, that the degree of regulation may not be confined by anything but the demands of public policy under this method.

It is probable that certain gains would accrue to the public from a limited regulation and supervision of the retail business. It is certain that, in many localities, the retailers themselves would be much benefited by such regulation. Much of the capital and energy now wasted in senseless competition could then be turned into channels of service to the consumer. Regulation would tend to insure to the dealer a fair return for his service. At the present time, under the competition found in many places, the business not only does not pay a fair wage to those who are engaged in it, but is supported in part at least by the returns from other industries. The capital used, it seems, is largely accumulated from other fields, and the wages paid to employees is in many cases so low as to make it necessary for the younger employees, at least, to depend for part of their support upon their homes. In other words, present competition has made the retail business partly parasitic. This condition, so far as it prevails, is essentially evil. Each industry should stand on its own feet, pay its own way, provide for its own emergencies and risks, and be the source of the capital necessary to make extensions. If regulation is established, these matters would have to be considered, and the parasitic element would probably be eliminated.

There are large difficulties in the way, however, for legal regulation of the retail business in this country. It would probably have to be accomplished under the exercise of the state's police power. In order to invoke this power it must first be shown that such regulation is necessary. For example, " To license plumbing it must be shown that

this will tend to promote the public health, morals, safety, comfort, or welfare, or to suppress disease." [21] In some cases it might prove quite difficult to demonstrate the need of such regulation in the face of the court precedents of the past. To illustrate, "A tax on department stores can not be shown to be such (necessary to promote the public health, safety, comfort or welfare), hence cannot be sustained under the police power." [22]

The Missouri law under which the case, just quoted from, came to the supreme court of that state was in many respects similar to the German department store law, but this decision declared it unconstitutional on the grounds that such an act was unnecessary, unfair, and constituted class legislation.

Some economists have also taken a view opposed to such regulation and taxation. In his work on "Shifting and Incidence of Taxation," [23] Professor Seligman speaks of the effects of the German law in restricting competition and takes the position that such a result would be undesirable in this country.

Without special legislation there is little hope for any form of regulation of retail businesses. Courts have held a position quite consistently opposed to any interference of the public with ordinary retail establishments.

"It would be illegal for a city to create a monopoly by granting an exclusive license to a single party." [24]

"Taxation cannot be used for the purpose of building up monopolies. Taxation of business and license taxes are peculiarly liable in this direction, especially if they undertake to limit the number to whom permits shall be given." [25]

In certain instances, however, both legislatures and

21 Wilkie *v.* Chicago, 188 Ill. 444.
22 State *v.* Ashbrook, 154 Mo. 375.
23 Pages 361, 362.
24 "American and English Encyclopedia of Law," Vol. 21:784.
25 "Cooley on Taxation," Vol. 1:409, 410.

courts have departed entirely from their theories of free competition. At one time it was thought essential in order to keep alive competition among railways between two points, to have two or more companies in a municipality selling gas, water, light, telephone, or transportation services. But the wastes involved in such competition have become apparent to all, and these now constitute exceptions to the rule of freedom in business.

If it could be shown generally and conclusively that regulation of the retail business would be a distinct benefit to the public, the first step towards the establishment of such a system could soon be accomplished. But it must be admitted that such regulation cannot at present be shown to be necessary, for the reason that the evidence, even if existent, is not available. Many think, or believe, or feel, that such regulation would be a benefit, but such thoughts, beliefs, or feelings are not the influences by which either legislative or judicial opinion might or should be swayed. The first step to be taken in the settlement of the problem in either one way or the other would be a thorough investigation of the retail business by the states, or, better still by the national government, to determine just where and what the wastes in retail distribution are. From the information thus gathered, judgment could more readily be passed as to the need of public regulation.

In conclusion, the following points should be noted:

First. If the retail business is to be regulated, the business tax or license system seems to offer the simplest approach to the matter.

Second. A business tax is an effective means of securing money for government purposes. There is as much to commend it for this purpose as for regulation.

Third. Judging from the conditions that are apparent in retailing, it would seem desirable for the public to exer-

cise some regulative power over retail stores. This regulation, if widely applied, would be fully as beneficial to the retailers as to the public.

Fourth. As a first step, before any measures are taken for general regulation of any kind, a thorough-going investigation is needed to determine the exact character of the problems to be solved.

A Selected List of References on Business Taxation

Ely, R. T. Outlines of Economics, pp. 648–649.
Ely, R. T. Taxation in American States and Cities, pp. 203–209 and 280–286.
Seager, H. R. Introduction to Economics. (See Index therein.)
Bullock, C. J. Principles of Economics. (See Index therein.)
Bullock, C. J. Selected Readings in Public Finance, pp. 321–349.
Bastable, C. F. Public Finance, 1895, pp. 425–431.
Cohn, G. The Science of Finance, 1895, pp. 482–484.
Seligman, E. R. A. Shifting and Incidence of Taxation, pp. 338–366.
Seligman, E. R. A. Finance Statistics of American Commonwealths. American Statistical Assoc., 1889.
Cooley on Taxation. 3rd Edition (legal work), Ch. XVIII, "Taxation of Business and Privilege."
U. S. Census, Special Reports:
    Wealth, Debt, and Taxation, 1907.
    Statistics of Cities, 1908. (Table 35.)
Hollander, J. H. Studies in State Taxation, Vol. 18 in Johns Hopkins University Studies in Historical and Political Science:
    Adams, T. S. Maryland, pp. 45–51.
    Barnett, G. E. North Carolina, pp. 92–97.
    Brough, C. H. Mississippi, pp. 206–212.
    Schmeckelbier, L. F. Georgia, pp. 243–248.
Millis, H. A. Business and Professional Taxes. *Journal of Political Economy,* 16:76–87.
Hart, W. O. License System in Louisiana. International Conference on State and Local Taxation, 1909, p. 275 ff.
Forman, J. C. Business Assessments as a Substitute for the Personal Property Tax. International Conference on State and Local Taxation, 1908, pp. 273–283.
Hill, J. A. Taxes on Department Stores. *Quarterly Journal of Economics,* 15:299–304.
Adams, H. C. The Science of Finance, 1899, pp. 377–385.

CHAPTER XX

THE IDEAL RETAILING SYSTEM

One of the most noteworthy ideas that results from a study of the present retailing system with all its complexities, is that it is a product of an evolution extending back over a great many years, and that during all the intervening time there has gone on a steady, relentless elimination of all forms of distribution found uneconomical. In view of this, if for no other reason, it is to be presumed that there is a proper economic place for each form of retail distribution now in existence. Department stores, specialty stores, and mail order houses, all perform economic functions. Each serves in a part of the field of distribution not entirely covered by the other types of institutions. So long as the general problem of distribution remains the same as it is at present, each of these classes is here to stay. It is even likely that new types not yet developed will also find their way into the system. The difficulties that exist among them are probably due to a lack of adjustment of each type to its proper field, rather than to anything more fundamental. Much of the friction may be reduced in the course of time.

Changes in retailing methods must proceed slowly, for no change can be made successfully without the co-operation, or at least the acquiescence, of the people. The people are the final arbiters, and no system of distribution can succeed unless the people are in favor of it in both conscious thought and unconscious habit. Whatever there is of value in past experience, therefore, should be saved and

put to use in present and future practice. It is probable that the most substantial progress in retailing in the future will be the result of gradual changes, and careful adaptations of one thing at a time to suit new needs, rather than the result of rapid evolutions from old into new and entirely untried plans.

The fact that the present system is a product of evolution is presumptive proof that it is far from perfect. Evolutionary movement is always preceded by necessity. Conditions demand a readjustment long before the readjustment takes place, and it is only at times that are relatively stable or unprogressive that it may be said that the necessary readjustments actually or approximately catch up with the needs. Since the distributive system is conditioned on the one hand by the methods of production, and on the other by the standards of living of the consumers, it is only during long periods of relatively fixed methods of production and relatively fixed standards of living that distributing systems work smoothly and satisfactorily. But at the present time, and during the years just passed neither methods of production nor standards of living have been fixed or stable. Consequently, the system of distribution has been and is under the necessity of change. Not that any particular form of retailing is foreordained to succeed over others, but the new conditions demand readjustments of some kind, and those that fit the conditions most adequately are destined to the greatest development.

There is a demand, potential at least, at the present time for a retailing system that will supply each community with what the people want, in the way that they want it, when they want it, and at the lowest possible cost. What is demanded is that the retailer and his employees must be whole-hearted servants of the people. Upon this ground only can the retailer's wage, called his profit, be justified. Profit or

wage of any kind without service in return is graft. This is a fundamental principle to which all business must sooner or later conform.

In an ideal system of retail distribution, the salesman must be able to perform an expert service; in other words, the salesman must be a specialist in his field. It does not seem too much to say that the grocery salesman must be a food specialist, well versed in dietetics, food values, and food preparation. The dry-goods and clothing salesman must be a textile and style expert. The shoe salesman must be a specialist on fitting feet for comfort, for service, and for appearance.

The store equipment must be such as to facilitate the best service, and by best service is meant speed, cleanliness, correct weights and measures, the saving of labor, and the elimination of leaks and wastes. People are coming to expect that the corner grocer shall not only be honest and intelligent concerning his goods, but that he shall make his place of business accord with the best standards of the community as to architecture and sanitary arrangements. Light, air, and cleanliness are modern demands for every structure used by people and must not be neglected by modern store owners. Fixtures that are not only useful in every way but also artistically appropriate in line and design add to the customer's satisfaction.

Either every store should have its own laboratory or testing room with full equipment for making tests of all goods handled, so that what is told to the customers about the goods may be the results of personal observation or knowledge; or such a laboratory should be supplied by each municipality in which the necessary tests could be made for all stores. Every salesman should be well versed in all known tests applicable to his particular line.

The interest of the public in the distribution of goods

is such that a certain amount of supervision and regulation seems necessary, as for example, the setting of standards for, and the inspection of foods, drugs, food stores, weights and measures, and so on. In some states legislation has been specifically enacted against untruthful advertising. Such laws seem desirable, and it is probable that other states will take similar action. The rule "caveat emptor" is passing. In its stead the seller is coming to be held responsible for all of his statements. Competition forces this in the long run, but the difficulty arises with short-sighted dealers and with fly-by-night concerns that expect to sell a customer only once. Dishonesty in such quarters must be checked, and to this end, a good "truthful-advertising law" will be found helpful. The administration, or the responsibility for the administration, of such a law should rest with the retailers themselves. No one is hurt by dishonest advertising any more than the dealer who is trying to do business on honest lines, and who hopes for continued patronage from the same customers. Retailers as a class would be more interested to see such laws carefully enforced than any other group of citizens. In the matter of truthful advertising as well as in every other reform, the motive for progress should come from within the group rather than from without. Supported by the good opinion of the more influential members of the group of retailers, the law will be effectually observed. Without this support, it is likely to be evaded if not neglected entirely.

It has been proposed in various quarters that retailers should be licensed, their numbers regulated, and their standards defined publicly. There are many legal objections to such a course and no precedents exist for such a regulation of ordinary retail businesses in this country. Aside from the practical difficulties of carrying out such a plan, there is not yet a sufficient amount of general knowl-

edge about the problems of retail distribution to warrant the public in taking a decided stand upon any point that might be affected by regulation. Obviously the public should know where it is going before it starts. Regulation may be very desirable, and undoubtedly is, but at the present stage of our knowledge about the work of retailing, it is far from clear that any satisfactory method of regulation could be devised without a great many preliminary trials and errors. The problems of distribution are too big and too complex to be solved by simple formulas. Unless wisely administered, public regulation would be as likely to prove harmful as helpful. Establishing regulation without sufficient preliminary, impartial investigation might result in too expensive experimentation.

As has been pointed out in a preceding chapter, there has been a decidedly great development of chain stores of various kinds in this country during the last score of years. A number of these chain systems have been established solely because of friction in the regular channels of distribution. Manufacturers who have had trouble with retailers and jobbers over such problems as price-cutting, substitution, and refusals to handle the goods at all, have felt obliged to establish outlets of their own. Thus, there have grown up in this country, as well as in the European countries, a number of manufacturers' and jobbers' chain-store systems, of exclusive agencies, of "tied shops," and of various other complex arrangements in which the distribution of goods from the producers to the consumers is carried out of its regular channels. If occasion for such friction is to continue, it seems certain that these independent and special distributive agencies must multiply. It is even possible that in the course of time these special agencies may take the place of the regular stores entirely.

Whatever the future may bring, it does not seem that

this development of multitudes of special distributive systems is to be desired. In the first place, the most obvious result is a duplication of distributive agencies that are already in existence. In so far as the present agencies are inadequate to handle any given type of business, the establishment of the special type is socially justifiable. But where the special distributive system is established in the face of the fact that present systems are quite sufficient, one may well pause before giving an unqualified approval. Such duplication means waste that in many cases consumes all, and more than all, of the gains made through the new arrangement. Wealth dissipated in duplicating distributive systems already in existence is lost not only to the individual who advances it, but also to society; since if it were otherwise productively employed there would be an increase of useful products or services for society.

A second reason for doubting the good of the movement towards chain stores and other special distributive agencies is that such systems, although established in many cases in self-defense, have a tendency after they reach large proportions to become aggressive, to dominate the retail markets, to drive smaller concerns out of business, and in short, to do in the field of distribution what the great trusts have done in certain productive industries.

The former, a duplication of existing distributive systems, constitutes social waste; the latter, a tendency to gain control of large sections of the retail business, is a menace. But present conditions of retail trade encourage the organization and development of just such special systems. Until something shall have been done to eliminate the friction now so common between producers and distributors, the present tendency towards large and special retailing aggregations must go on. The remedy, if such it may be called, is to remove the causes of friction.

If a remedy is to be applied, it would seem wise, in view of our experience with the great industrial trusts, to apply it now as a *preventative* rather than wait until the development has gone on so far as to demand a *cure*.

The greatest causes of friction between producers and retailers at the present time are as follows:

1. Price-discriminations, in which some dealers are favored at the expense of others.
2. Price-cutting on standard goods resulting in injury to the producer's markets.
3. The difficulty producers experience in getting and keeping their goods in the hands of dealers so that they may be obtained by the consumers.

The first steps aimed at reducing such friction must seek to prevent unfair price-discriminations between buyers, and must grant to the producer, who desires to make a standardized article, the right to name the prices at which it is to be sold by all dealers. The elimination of the system of granting price favors to "preferred customers" and of unauthorized price-cutting of standard goods, would go far towards removing many of the present serious causes of controversy.

The third great source of friction in the distributive machine, mentioned above, is the difficulty experienced by producers in getting their goods into the hands of retailers and in keeping them there. The expense for traveling men and for advertising campaigns that have for their sole purpose the cultivation of trade relations with dealers, getting trade away from other concerns, and preventing other concerns from retaliating, is enormous. Under present methods of competition this waste seems unavoidable. Business men everywhere frankly admit that this is one of the big problems of present-day industry. Into this competi-

tion all the forces of business are brought into play. Far from stopping with perfecting the character of the goods offered for sale, or reducing the price to the lowest possible point to secure markets through the regular channels, much baser methods amounting virtually to bribery and graft are often resorted to. To reduce the friction arising from these causes something must be done to open the regular distributive channels to all producers on the same terms.

It does not seem beyond the bounds of practical thinking to suggest that all dealers of a certain class of goods should be required to admit to their stores the products of all manufacturers or jobbers who might desire to employ their services upon being guaranteed a reasonable, fair remuneration therefor.

This plan might be entirely impracticable in some lines. But among the specialties in groceries, dry-goods, drugs, and hardware, certainly much waste could be eliminated if the manufacturer could freely send a sample or a small lot of his goods to the retailer together with his guarantee to pay the retailer for his expense for a given period of time, whether sales were made or not. The retailer would then serve the manufacturer, or the producer, in much the same capacity and under the same principle as the transportation companies now serve shippers. Each manufacturer would at least get a chance to have his goods displayed where customers are, just as shippers are now all given the privilege of having their goods transported.

This plan would mean a great saving to the manufacturer in selling and advertising expense. The problem of the manufacturer under this plan would not be how to get retail dealers to agree to take his goods, or how to keep their custom after they had once begun to order, that is, to keep other manufacturers from taking the trade away; but the problem would be how to make the goods so attractive

in quality, appearance, and price as to cause them to be sold to consumers in competition with other like goods from other producers, all on the same counter, or in the same show case. The real demand for an article could soon be determined by this method and at much less expense for most goods than by sending out traveling salesmen and spending large sums on advertising. There would still be some need for commercial travelers and certainly for advertising, but both forms of sales promotion would become very much more effective than at present.

The retailer would be confronted by a number of problems quite different from those he has to meet now. One of these would be to provide suitable space for all of the goods that might be sent to him by producers. But since the retailer would be paid for his service, including rent for the space occupied by the goods, it does not seem that the problem would prove unsolvable. There would also be difficulty, though not insurmountable, in providing fair display space and prorating the various rental charges for the various classes of goods consigned to the store. The capital of a dealer would be his store room, fixtures, and equipment. The risks of marketing would fall where they belong — on the producer. Accumulation of dead or unsalable stock in any community could be obviated by this method of distribution. Goods not sold within a certain time could simply be returned to the manufacturer or sent on his order to some other store where sales were being made.

The consumer would be benefited most of all. In the first place, the emphasis in competition would be placed by the manufacturer on getting the consumer's trade rather than as now on getting the retailer's trade. To get the consumer to buy, quality and price would become preeminent considerations. In the second place, it seems quite

likely that the consumer would have a larger variety of goods to select from, so that wants could be more fully and specifically satisfied. In the third place, many more kinds of goods would reach the consumers than is now the case; for, now, many valuable inventions are probably never marketed because their promoters are unable to satisfy the demands of jobbers or other dealers who control the outlets.

It might be urged that this method would tie up a great amount of the manufacturers' capital in the form of goods consigned to dealers. This is true, and it is not to be expected that every manufacturer could effect national distribution at once. It is obvious, however, that the plan proposed has many advantages for the manufacturer. Advertising and distribution could be perfectly correlated by taking one community at a time. Goods distributed nationally could be advertised through national mediums, while the goods distributed through certain particular sections could be advertised in those sections only. Many other possibilities of this plan will suggest themselves to the reader.

Prevention of unfair price-discrimination, permitting price-maintenance under careful supervision, and opening the retail markets to all producers — these three reforms in business would result in raising it to a plane where workmanship and efficiency rather than subtlety, crafty bargaining, and force count for success. Under these three policies there would be no object in creating chain systems or in organizing any form of combination other than for purposes of reducing the expenses of handling. Eliminate the inside-price-buying system and the price-cutting system in selling and you eliminate bases upon which stand all marketing monopolies.

The great power of a modern trust, whether it be in the field of distribution or of production, lies either in its ability to buy for less, to sell for more, or to do its work

at a lower expense than its competitors. Its buying for less amounts to no advantage unless the price is much less proportionately than that paid by other competitors. Such a difference constitutes unfair discrimination. The trust can sell for more only when it has a monopoly — when its competitors have been wiped out of the market. But the usual method adopted by the trusts to get rid of competitors is by underselling them in one place or in one line at a time, while making up these losses by sales in other places or other lines. Price-maintenance is, at least, a partial, if not a complete, remedy for this in the retail trade.

In so far, and wherever the trust succeeds in actually reducing the expenses of production or distribution, at the same time giving the service that the public desires, it is to be commended and encouraged as against less efficient concerns. But in all recent trust investigations, the economies of production and distribution gained by organization have been largely incidental and insignificant compared with the power it has given to buy for less, and sell for more than competitors, and thus to put competitors out of business.

If the public really wishes to check the evils of trust development, the means in general outline are clear. Simply prevent unfair price-discrimination. In other words, compel all sellers to sell to all buyers who apply on equivalent terms, and thereby prevent cut-throat competition, that is, price-cutting that goes below the legitimate costs of production and distribution. As for the rest, under these conditions, let the best man win. The concern with the best system and the lowest costs will succeed, as it should. Combination will be made, not for industrial and commercial warfare, but for efficiency, if at all.

Where governments do not interfere with these tendencies of present-day competition and its frictions, business concerns themselves are forced to combine into organizations

having for their purpose the regulation of trade abuses. Something has already been accomplished in this country through "the trade relations committees" of the great dealers' associations, but in this respect American business men are much behind those of Europe. The Proprietary Articles Trade Association of England is a good example. The "P. A. T. A.," as it is called, is made up of manufacturers, jobbers, and the majority of retailers of the country. Agreements are reached as to both retail and wholesale prices, thus settling both the quantity-discount and price-maintenance questions. Any manufacturer or jobber who transgresses the rules established by agreement by giving inside prices to any buyer is immediately expelled, the prices on his goods are generally cut thereafter by all dealers, the stock in the hands of the dealers is disposed of and is thereafter ordered only upon request of consumers. Retailers who cut prices set by the P. A. T. A. are likewise summarily treated.[1]

It is possible that the conditions of American retail trade that are now so troublesome will in the future be eliminated or avoided by plans such as these. But there is always a tendency when an organization such as the P. A. T. A. becomes large and effective, to go farther than merely correct the abuses existing within and to lay tribute upon the consumer. In other cases, the members of such organizations become unprogressive and assume an unnecessary enmity towards all improvement. In view of these tendencies, such associations need the corrective balance of the one other party interested in their work — namely, the consumer. Hence there is needed the supervision of the public.

How far government supervision and regulation over the retail trade will be carried remains to be seen. One can well adopt Spencer's dictum that the government that gov-

[1] *Printers' Ink*, April 2, 1914, p. 64.

erns least is the best, and that the responsibility of working out its own destiny should be left as largely as possible to each class of business. It is only when one group threatens the existence of others and offers no ultimate advantage to the consumer, that the spirit of fair play must be invoked through the agency of government and the offenders told to limit their activities to fair methods.

One thing that the public can and should do for distribution is to collect statistics that will give an accurate, quantitative idea of the extent of the business, the different types of retail organizations, the expenses of selling in each, the amount of the business done, the amounts of capital invested, the character of retail store ownership, the relations of retail stores to jobbers and manufacturers, the number and kinds of employees and their wages and salaries, the extent of the credit business, the costs of delivery, the tendencies in consumer demands, and many more important matters necessary to forming correct judgments concerning the retail business.

By means of the Federal and State censuses, and through the work of other government departments and bureaus, the nation is gradually coming into possession of a fair knowledge of the problem of the production of raw materials, of transportation, and of manufactures. In the newly established Office of Markets in the Department of Agriculture, the distribution of agricultural products is to be studied. Except for this beginning, important as it is, and covering but a single section of the big field of goods distribution, nothing has been done by any department of government to determine the degree of our nation's efficiency in its commerce and trade. Of all the states, Massachusetts has taken the first and only census of trade.[2] Even that was meagre in detail. It seems strange that

2 In 1905.

great sums of public money should be given to the study and promotion of better methods of production, and that nothing should be done to determine better standards of efficiency in distribution, especially when one considers that the costs of distribution are nearly equal to those of production. Investigations made so far in the field of retailing are mere samplings, and the judgments passed are but little more than guesses. The demand for census taking and investigation in the distributive business is one that the government should neglect no longer.

It is probable that the greatest progress to come in retailing will not result from any readjustment brought about by public action, though this may be a necessary part of its evolution, but rather from a scientific study of the problem of distributing goods made by retailers and their salespeople themselves. The costs of distribution are admittedly too high at present for the services performed. If these costs could be generally reduced, for example, as much as 2 per cent, it would mean a saving of from $200,000,000 to $300,000,000 annually to the United States alone. This saving would first take the form of added profits to the distributors but ultimately would go to the consumers as a whole. But 2 per cent is a very conservative estimate of reductions that may be made when those engaged in the business shall have been properly educated for their work. It may not be too much to say that savings of twice or even three times this amount are possible.

There is no reason why scientific study and education should not do for distribution what it is doing for agriculture. Like agricultural education, the education for retailers and their salespeople must be widely diffused in order that society may make appreciable gains. Every store worker must share in this training. Progress towards more economical and better retailing can come only by slow de-

grees, and by improvement of one thing at a time. For the best scientific results, there must be co-operation of both schools and the public with the retailers. One of the most vital effects to be hoped from a proper training of retailers is that they may in turn help consumers to become rational in their demands and wiser in their purchases and consumption.

Some reforms are necessary in present-day business methods. A clear understanding of the evils that exist and their causes will go far towards prompting business men to take steps of their own accord to eliminate them. There is a demand that business education should be offered by the public schools. The purpose of such education would be to point out the ways in which business might be successfully conducted. If present-day business practice alone were to serve as the lesson to be studied, the schools would have to countenance some methods that are expedient rather than right. This proceeding would justly be met by public criticism. Business education must come, but, as an accompaniment, business must be made fit to teach. Machiavellian training has no place in a public educational system. Thus the coming of science and education into distribution will help to accomplish what all business men of high principle and broad vision desire to see, efficiency and honesty of performance in this great and useful work.

APPENDIX I

DISTRIBUTION OF FAMILY EXPENDITURES [1]

Ernest Engel (1821–96), while at the head of the Statistical Bureau of Saxony, conducted extensive investigations of workingmen's budgets. As a result of these studies he formulated tables that have become classical.

EXPENDITURES, BY INCOME GROUPS AND PERCENTAGES
(Engel's Table for Saxony, 1857)

Items of Expenditure	Annual Income $225–$300	$450–$600	$750–$1,000
Subsistence	62.00%	55.00%	50.00%
Clothing	16.00	18.00	18.00
Lodging	12.00	12.00	12.00
Fuel and light	5.00	5.00	5.00
	95.00%	90.00%	85.00%
Education, church, etc.	2.00%	3.50%	5.50%
Legal protection	1.00	2.00	3.00
Care of health	1.00	2.00	3.00
Comfort (mental and bodily recreation)	1.00	2.50	3.50
	5.00%	10.00%	15.00%

From these tables Mr. Engel propounded four economic laws that are as follows:

First. That the greater the income, the smaller the percentage of outlay for subsistence.

Second. The percentage of outlay for clothing is approximately the same, whatever the income.

Third. The percentage for lodging or rent and for fuel and light is approximately the same, whatever the income.

Fourth. As the income increases in amount the percentage of outlay for sundries becomes greater.

1 Quoted from Massachusetts Cost of Living Commission's Report, 1910.

Comparison of Five Investi
Percentages of Expendi

Income	Rent					Fuel and Light				
	Chapin	Homes Commission	More	U. S. Bureau of Lab., 1903	U. S. Bureau of Lab., 1891	Chapin	Homes Commission	More	U. S. Bureau of Lab., 1903	U. S. Bureau of Lab., 1891
Under $200	...	...	...	16.9	15.4	...	...	...	7.8	8.0
$ 200 to $ 300...	...	...	...	18.0	14.6	...	...	...	7.1	7.4
300 to 400...	...	...	30.5	18.6	14.9	...	...	6.5	7.0	6.9
400 to 500...	26.8	...	25.9	18.5	15.2	5.6	...	6.2	6.6	6.5
500 to 600...	25.9	17.5	22.4	18.4	15.1	5.9	5.4	6.0	6.1	6.5
600 to 700...	23.6	17.1	21.7	18.4	15.5	5.8	4.8	5.7	5.7	5.7
700 to 800...	21.9	15.6	21.2	18.1	15.6	5.0	4.8	6.4	5.2	5.2
800 to 900...	20.7	13.3	18.6	17.0	16.0	5.0	4.3	5.4	4.9	5.1
900 to 1,000...	19.0	13.6	17.6	17.5	14.9	5.1	4.0	4.8	4.9	4.7
1,000 to 1,100...	18.1	10.9	17.3	17.5	15.1	4.5	3.3	4.5	4.8	4.4
1,100 to 1,200...	16.2	...	...	16.5	12.2	3.8	...	...	4.6	3.8
1,200 to 1,300...	19.8	...	...	17.4	12.5	3.8	...	...	4.9	2.9
1,300 to 1,400...	16.8	...	18.0	...	...	3.6	...	4.5	...	...
1,400 to 1,500...	...	...	...	...	...	...	...	...	...	...
1,500 and over..	16.3	15.3	16.2	...	...	4.1	2.7	3.2	...	...

Let us now take the results of a number of investigations, and test their results by Engel's laws. The investigations selected for this comparison are chosen either because based on the study of large numbers of families or because they are comparatively recent. They are as follows:

Investigation of cost of living of workingmen in textile and glass industries, made by the United States Bureau of Labor in 1891. Total number of budgets, 5,284.

Investigation of cost of living, made by the United States Bureau of Labor in 1903. The investigation was based upon the study of 25,440 family budgets.

Investigation of wage earners' budgets in New York, made in 1905 by Mrs. Louise B. More of Greenwich House. This investigation was an intimate study of 200 families on the lower west side of New York City.

Investigation of the standard of living among workingmen's families in New York City in 1907, by Robert Coit Chapin, under the auspices of the New York State Conference of Charities and Correction and the Russell Sage Foundation. This was an intensive study of 391 families.

GATIONS OF FAMILY BUDGETS
TURES, BY INCOME GROUPS

Clothing					Food					Sundries				
Chapin	Homes Commission	More	U. S. Bureau of Lab., 1903	U. S. Bureau of Lab., 1891	Chapin	Homes Commission	More	U. S. Bureau of Lab., 1903	U. S. Bureau of Lab., 1891	Chapin	Homes Commission	More	U. S. Bureau of Lab., 1903	U. S. Bureau of Lab., 1891
...	...	...	8.6	12.8	...	...	...	50.8	49.6	...	...	...	15.5	13.9
...	...	...	8.6	14.3	...	...	...	47.3	44.2	...	...	...	18.7	19.2
...	...	7.3	10.2	14.4	...	...	44.2	48.0	45.4	...	...	11.5	16.0	18.2
13.0	...	9.3	11.3	14.3	40.8	...	44.4	46.8	45.0	13.8	...	14.2	16.5	18.6
12.4	9.9	8.5	11.9	15.2	44.4	43.5	50.1	46.1	43.8	11.4	21.0	13.0	17.2	19.1
12.9	10.5	9.0	12.8	15.8	44.6	41.4	45.5	43.4	41.1	13.1	22.5	18.2	19.3	21.5
13.4	11.1	9.2	13.5	16.3	45.6	40.2	44.2	41.4	38.8	14.1	21.9	19.0	21.6	23.8
14.0	11.5	10.3	13.5	15.0	44.3	41.9	45.8	41.3	38.0	16.0	27.1	19.9	23.0	25.4
14.6	11.7	9.4	14.3	16.8	44.7	38.4	45.8	39.9	34.3	16.6	23.3	22.4	23.2	29.1
15.5	11.5	10.8	15.0	17.5	44.7	33.3	43.6	38.7	34.7	17.1	24.2	23.8	23.6	28.1
14.9	...	...	14.8	16.5	45.6	...	...	37.6	30.6	19.5	...	...	26.1	36.7
15.2	...	...	15.7	15.7	45.0	...	...	36.4	28.6	16.2	...	...	25.4	40.0
13.7	...	11.3	...	...	43.6	...	39.5	...	...	22.3	...	26.7	...	...
...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
16.8	10.2	16.6	...	...	36.8	21.0	35.8	...	...	26.0	25.1	28.2	...	...

Investigation of the Homestead Commission in Washington, D. C., made in 1907, and based upon the budgets of 2,078 families.

The accompanying table enables us to compare the results of these five investigations. It gives the percentage of expenditure for various purposes by classified incomes.

In the case of rent it will be seen that the investigations of the United States Bureau of Labor of 1891 and 1903 agree with Engel's law — that the proportion of income spent for rent is about the same for all incomes. But the three more recent studies all show a decreasing proportion expended for rent. For New York this is probably due to the fact that the minimum housing is abnormally high, so high for low incomes that with higher incomes the people cannot afford to move into a better house because they are already paying an abnormal amount for rent. In both New York studies, rent takes more than 20 per cent of the family's income for all incomes under $800 a year.

Engel's law is supported by the figures for fuel and light. The proportion expended remains practically the same for all incomes covered by the investigations; and, furthermore, the precentages very nearly agree for all the investigations.

Engel's law in regard to clothing is not borne out by all the studies, although the increase in the proportion expended for clothing is usually slight. There is considerable variation in the percentages of expenditure for clothing in each income group in the different investigations. Engel's law with regard to clothing — that the percentage of expenditure for that purpose did not tend to increase with increasing income — has never been borne out by studies made in the United States.

The percentages of expenditure for food bear out Engel's law for food — that as income increases the percentage of expenditure for food decreases. In the $700–$800 and $800–$900 groups the figures for different investigations differ but slightly.

Engel's law with regard to sundries is strikingly borne out by every investigation. As income increases the proportion spent for sundries increases.

On the whole, there is a remarkable harmony in the results of these five investigations, based as they were upon families in different localities and at different times, and studied by various methods. It would be safe to deduce from these tables a few generalizations about the expenditure of the income of a workingman's family under normal conditions. For weekly incomes of from $12 to $18, the income would usually be spent about as follows: rent, 18–20 per cent; fuel and light, 5 per cent; clothing, 14 per cent; food, 43–45 per cent; sundries, 15–17 per cent. This analysis may not actually fit the expenditures of many families, but it would probably be found that normal families with incomes of the amounts stated tend to approach these figures.

APPENDIX II

STATISTICS OF TRADING CONCERNS IN MASSACHUSETTS

Classification of Trading Concerns in Massachusetts by Manner of Selling

	Number	Capital	Value Goods Sold	Wages	Salaries
Retail	24,522	$120,065,311	$ 444,984,052	$ 849,075	$ 78,206
Wholesale ...	3,315	109,952,787	510,016,634	359,150	152,492
Jobbing	480	16,777,443	81,017,798	56,926	32,924
Commission ..	570	24,255,758	253,670,922	48,048	29,711
Exporting ...	12	237,500	2,492,083	389	627
Importing ...	129	15,516,364	83,540,190	13,644	13,735
Exporting and importing ..	17	1,161,293	8,519,704	3,254	2,218

APPENDIX III

GENERAL STATISTICS OF RETAIL TRADE

General Summary of Massachusetts Trading Concerns

Number of establishments		29,045
Dealing in raw materials	1,682	
Dealing in food products	14,224	
Dealing in manufactured goods	13,139	
Total capital invested		$287,966,456
Raw materials	$42,897,034	
Food products	71,708,282	
Manufactured goods	173,361,140	
Value of goods sold		$1,384,161,383
Raw materials	$270,159,171	
Food products	448,002,405	
Manufactured goods	665,999,807	
Total number of wage earners		129,129
Males	90,332	
Females	38,797	
Total number of salary earners		15,330
Males	13,031	
Females	2,299	
Retail stores — total		24,522
Raw materials	1,038	
Food products	12,441	
Manufactured goods	11,043	

Weekly Wages Paid by Trading Concerns in Massachusetts in 1904

Weekly Wage	Males	Females	Both
Under $3	2,248	1,970	4,218
$ 3 to $ 4	2,524	2,909	5,433
4 to 5	2,696	3,848	6,544
5 to 6	3,471	5,766	9,237
6 to 7	3,914	8,526	12,440
7 to 8	3,379	4,452	7,831

Weekly Wage	Males	Females	Both
8 to 9	4,204	3,639	7,843
9 to 10	6,611	2,082	8,693
10 to 12	14,962	2,683	17,645
12 to 15	23,679	1,838	25,517
15 to 20	16,056	819	16,875
20	6,588	265	6,853
Total	90,332	38,797	129,129

Weekly Salaries Paid by Trading Concerns in Massachusetts in 1904

Weekly Salaries	Males	Females	Both
Under $ 5	556	99	655
$ 5 to $ 6	293	174	467
6 to 7	339	273	612
7 to 8	261	269	530
8 to 9	345	297	642
9 to 10	341	183	524
10 to 12	890	332	1,222
12 to 15	1,767	369	2,136
15 to 20	2,524	216	2,740
20	5,715	87	5,802
Total	13,031	2,299	15,330

Retail Store Statistics for Massachusetts, 1904

	Number	Capital	Sales	Weekly Wages	Weekly Salaries
Total retail stores	24,522	$120,065,311	$444,984,052	$849,075	$78,206
Dealing in raw materials	1,038	11,308,916	41,946,360	80,584	8,361
Dealing in food products	12,441	30,968,451	181,258,332	319,437	15,327
Dealing in manufactured goods	11,043	77,287,944	221,779,360	449,054	54,518

Deductions from Massachusetts Trade Census Regarding Food-Selling Stores, 1905

Total number of retail stores selling food of all kinds	12,441
Average capital invested	$2,489
Average sales	$14,569
Ratio of food stores to population	1 store to 241 people

Average Population to Each Kind of Retail Store for Census Years (Massachusetts)

Line of Business	1875	1880	1885	1890	1895
Drugs and medicines....	1,461	1,481	1,555	1,563	1,510
Boots and shoes	1,809	2,199	2,193	2,076	1,656
Carpets	20,113	21,343	16,266	22,424	19,877
China, glass, and crockery	7,433	9,304	8,873	8,305	11,043
Dry-goods	2,023	2,573	2,585	2,398	2,643
Fancy goods	1,828	2,356	2,730	3,900	4,688
Furniture	2,295	2,555	2,656	2,970	3,227
Glassware	13,653	15,514	17,745	15,465	14,615
Groceries	357	383	394	392	360
Hats, caps, and furs	3,454	4,269	4,593	5,750	6,538
Jewelry, watches, and plate	3,419	3,702	3,308	3,559	3,736
Kid gloves	48,846	45,355	39,309	74,746	62,115
Kitchen-furnishing goods	34,129	24,189	35,490	26,381	23,663
Laces, embroideries, etc..	31,084	32,985	24,400	56,060	33,128
Men's and boys' clothing..	2,590	4,123	3,683	3,274	2,940
Men's furnishing goods..	5,999	8,246	6,100	5,215	5,286
Millinery	2,178	2,147	2,638	2,893	2,199
Music	21,370	19,097	26,026	32,034	23,663
Small wares	12,211	22,677	16,974	28,030	38,225
Sporting goods	34,919	72,568	43,377	48,831	33,128
Stationery	5,605	4,970	5,005	5,901	6,999
Toys	68,384	51,834	78,079	56,060	82,820
Trunks, bags, and valises	12,664	18,142	18,590	17,249	23,663
Upholstery goods	11,397	13,955	15,015	16,017	16,564
Women's clothing and furnishing goods	17,996	32,985	24,400	28,030	29,231

Average Population to All Kinds of Stores for Census Years (Massachusetts)

Census Years	Population	Number of Stores Considered	Average Population to Each Store
1875	341,919	2,734	125
1880	362,839	2,571	141
1885	390,393	2,701	145
1890	448,477	3,010	149
1895	496,920	3,499	142

Comparison of the Number of "Departments" in Department Stores with the Number of Retail Stores in Boston in 1899

Classification of Departments and Stores	Number of Departments	Number of Retail Stores	Percentage of Departments to Retail Stores
Apothecaries (drugs and medicines).	4	328	1.22
Boots and shoes	16	321	4.98
Carpets	8	31	25.81
China, glass, and earthenware	9	42	21.43
Dry-goods	54	225	24.0
Fancy goods	16	94	17.02
Furniture	5	184	2.72
Glassware	5	30	16.67
Groceries	5	1,695	0.30
Hats, caps, and furs	9	87	10.34
Jewelry, watches, and plate	14	157	8.92
Kid gloves	12	9	133.33
Kitchen-furnishing goods	7	22	318.2
Laces, embroideries, etc.	30	15	200.0
Men's and boys' clothing	9	201	4.48
Men's furnishing goods	16	96	16.67
Millinery	11	242	4.55
Music	5	20	25.00
Small wares	27	14	192.86
Sporting goods	3	14	21.43
Stationery	8	76	10.53
Toys	6	3	200.00
Trunks, bags and valises	13	17	76.47
Upholstery goods	7	37	18.92
Women's clothing and furnishing goods	85	23	369.57
Not classified	33	..	....

APPENDIX IV

DEALERS IN THE UNITED STATES IN 1913 [1]

	Wholesale	Retail
Agricultural implement dealers	240	15,912
Animal, bird, and goldfish	...	420
Art stores and picture	...	1,900
Automobile	...	10,200
Bakers	620	25,788
Bicycle	...	5,013
Booksellers and stationers	...	11,954
Booksellers and stationers (second hand)	...	108
Boot and shoe	522	20,104
Butchers and meat markets	781	62,798
Butter and eggs	1,194	.....
Carpet	83	19,316
Cattle dealers and shippers	...	20,100
Cheese	263	.....
China, crockery, and glassware	340	2,861
Cigars and tobacco	1,991	40,555
Cloaks and suits	...	1,988
Clothing	160	22,713
Coffee, tea, and spice	547	3,764
Confectioners	...	35,423
Department stores	...	1,752
Drugs	668	43,239
Dry-goods	725	30,787
Electrical supplies	424	3,272
Fancy goods and notions exclusive	786	3,759
Feed, flour, and grain	1,572	19,839
Fish	950	.....
Fishing tackle	...	3,885
Five and ten cent — independent	...	1,054
Florists	1,765	8,482
Fruit	1,831	10,087
Furs (raw)	...	305
Fur garments	...	2,334
Furniture	307	16,131
Furniture (second-hand)	...	2,175
Gas and electric fixtures	...	2,476
General stores	...	144,933
Glass, oils, and paint	605	29,533
Glove	63	.....

1 From R. G. Dun and Company's list as compiled by the Rapid Addressing Machine Company.

	Wholesale	Retail
Grain dealers	1,210	16,783
Grocers	3,840	172,043
Gun	...	3,885
Hair-goods	...	1,037
Hardware	928	20,881
Harness and saddlery	314	20,084
Hats and caps	201	16,240
Hides	...	1,528
Honey	113	.....
Hosiery	1,105	.....
Ice	...	5,429
Instalment houses	...	1,488
Japanese and Chinese goods	...	413
Jewelers	815	22,025
Junk	189	6,213
Laces and embroideries	...	384
Liquors	5,412	101,605
Lumber	...	29,669
Mail-order houses	...	1,304
Men's furnishings (exclusive)	315	12,387
Milk	...	11,092
Milliners	424	26,843
Musical instruments	...	6,185
Neckwear	315	.....
Notions and toys	802	6,892
Nuts	...	138
Oysters (dealers and shippers)	...	1,222
Paper	905	.....
Pianos and organs	...	8,040
Produce	7,785	.....
Provisions	1,221	.....
Real estate	...	70,491
Rubber scrap	...	31
Seed men	597	.....
Sewing machines	...	2,102
Sponges	37	.....
Sporting goods	423	2,410
Stamps and coins	...	129
Stationery	391	.....
Stoves	...	22,177
Tallow and pelts	...	1,528
Tobacco leaf	592	.....
Trunks	...	712
Typewriters and supplies	...	810
Undertakers	...	17,808
Wall paper	284	.....
Willow and woodenware	131	.....
Wines	229	.....
Wool	...	767

There is undoubtedly some duplication in the numbers given in the foregoing table. It would hardly be safe to add the number of retailers in each line named above to get the total number of retail stores. Some stores carry several lines, and it is possible that the same store may be

listed in several lines in several cases. So far as it goes, however, the number of dealers in any given line as stated is fairly correct, that is to say, there are probably about 43,239 places where drugs are sold, 20,881 hardware stores, and so on.

APPENDIX V

RULES FOR FIGURING COSTS AND PROFITS [1]

1. Charge interest on the net amount of your total investment at the beginning of your business year, exclusive of real estate.

2. Charge rental on all real estate or buildings owned by you and used in your business at a rate equal to that which you would receive if renting or leasing it to others.

3. Charge in addition to what you pay for hired help an amount equal to what your services would be worth to others; also treat in like manner the services of any member of your family employed in the business not on the regular pay-roll.

4. Charge depreciation on all goods carried over on which you may have to make a less price because of change in style, damage, or any other cause.

5. Charge depreciation on building, tools, fixtures, or anything else suffering from age or wear and tear.

6. Charge amounts donated or subscriptions paid.

7. Charge all fixed expenses, such as taxes, insurance, water, light, fuel, etc.

8. Charge all incidental expenses, such as drayage, postage, office supplies, livery, or expenses of horses and wagons, telegrams and telephone, advertising, canvassing, etc.

9. Charge losses of every character, including goods stolen or sent out and not charged, allowance made customers, bad debts, etc.

10. Charge collection expense.

11. Charge any other expense not enumerated above.

12. When you have ascertained what the sum of all the foregoing items amounts to, prove it by your books, and you will have your total expense for the year; then divide this figure by the total of your sales, and it will show you the per cent which it has cost you to do business.

13. Take this per cent and deduct it from the price of any article you have sold, then subtract from the remainder what it cost you (invoice price and freight), and the result will show your net profit or loss on the article.

14. Go over the selling prices of the various articles you handle and see where you stand as to profits, then get busy in putting your selling figures on a profitable basis — and talk it over with your competitor as well.

[1] Recommended by the National Association of Credit Men.

APPENDIX VI

METHODS OF HANDLING CASH, CREDITS AND SOLD GOODS

There is considerable disagreement among expert store managers at the present time concerning the best methods of handling cash and credits, and of inspecting and wrapping merchandise. In the early days of store-keeping the salesman completed each transaction with each of his customers by accepting the money, making change, wrapping, and delivering the parcel to the customer.

Twenty-five or more years ago a number of the larger stores began to relieve salespeople of some of these duties by installing carrier devices to centralize change making and the inspecting and wrapping of goods. Cashiers were put in charge of the central money-receiving and change-making station and inspectors and bundle wrappers were placed at the central wrapping stations. It was thought that this division of labor would result in greater efficiency in all departments as well as greater security for the store in handling its cash and merchandise.

More recently there has been a tendency towards decentralization, particularly of the inspecting and wrapping of merchandise. It begins to appear that the centralization of these functions did not bring increased efficiency in all cases, and that customers seem to be best pleased when the operations of wrapping are performed before their eyes by the salespeople. The clerk-wrap plan, as it is called, seems to be gaining ground.

But whether cash and credits should be handled from central stations or by individual salespeople in their departments is a matter upon which the widest difference of opinion seems to prevail. The makers of devices to be used both for centralized and decentralized systems claim advantages and arguments over each other that are hard to reconcile. Testimonials of the satisfactory service of the one as against the other are given in large number by makers of the devices used in both plans. An analysis of some of the arguments which are advanced on both sides follows:

Arguments in favor of a decentralized system of handling cash by means of cash registers.	Arguments in favor of a centralized system for handling cash by means of pneumatic tubes or other forms of carriers.
1. Takes less time to make change. No waits for money to go to cashiers. No delays such as due to stoppage of tubes, broken cables, delays of cashiers, etc.	1. Takes less time to make change. No waits because of salespeople waiting their turns at cash registers. Change made by expert cashiers while salespeople wrap parcels.
2. Cost less. Small cost of up-keep. No power plant required.	2. Cost less. Small operating expense.
3. Saves steps for salespeople. Easy to move cash registers to convenient locations.	3. Saves steps for salespeople. Easy to provide convenient tube or cable stations. For the price of a multiple drawer cash register, three or four tube stations can be installed.
4. Takes up little room and adds to attractiveness of store.	4. Takes up less room than cash registers in sales departments.
5. Insures protection of store's cash. Claimed that carriers do not.	5. Insures protection of store's cash. Claimed that cash registers do not.
6. Salesperson made responsible. A good thing. Salesmanship improved. Waits for change over carrier systems are embarrassing. Customers are better pleased when salesperson gives entire service required. Disputes can be settled on the spot. All parties to the transaction close at hand.	6. Responsibility removed from salesperson. A good thing. Salesmanship improved. Salespeople do not have to think about cash. Can give whole time to selling more goods.

7. Miscellaneous.

Easy to audit from printed record. No expenses for cashiers. Receipt plan reduces salesperson's temptation to dishonesty. Not necessary to make out sales slips in some departments, when cash register receipts are given out. Salespeople like registers.

7. Miscellaneous.

Constant control over, and easy access to, cash when centralized. Expenses for cashiers distributed among salespeople when cash registers are used. Salespeople cannot detect counterfeits. Cashiers can. Salespeople like carrier and tube systems.

APPENDIX VII

JUDICIAL AND OTHER ACTION AFFECTING PRICE-MAINTENANCE

Instances of state courts holding for price-maintenance:

Ice Co. *v.* Parker, 21 How. Pr. (N. Y.) 302 (1861).
Clark *v.* Frank, 17 Mo. App. 602 (1885).
Walsh *v.* Dwight, 58 N. Y. Supp. 91 (1899).
Garst *v.* Harris, 177 Mass. 72 (1900).
Commonwealth *v.* Grinstead, 63 S. W. Rep. (Ky.) 427 (1901).
Park & Sons Co. *v.* Nat. Wholesale Druggists' Assn., 175 N. Y. 1 (1903).

Recent state court decisions favoring the price-maintenace policy:

Grogan *v.* Chaffee, 156 Cal. 611 (1909).
Ghirardelli *v.* Hunsicker, 128 Pac. Rep. (Cal.) 1041 (1912).
Fisher Flouring Mill Co. *v.* Swanson, 137 Pac. Rep. (Wash.) 144 (1913).

Instances of Federal courts sustaining price-maintenance:

Dr. Miles Medical Company *v.* Goldsmith, 133 Fed. 794.
Dr. Miles Medical Company *v.* Platt, 142 Fed. 606.
Hartman *v.* John D. Park & Sons Co., 145 Fed. 358.
Wells & Richardson *v.* Abraham, 146 Fed. 190.

In the case of Fisher Flouring Mills Co. v. C. A. Swanson, Supreme Court of Washington, decision rendered December 13, 1913, the Court closed its argument with the following statement:

"Finally, it seems to us an economic fallacy to assume that the competition, which in the absence of monopoly, benefits the public, is competition between rival dealers. The true competition is between rival articles, a competition in excellence, which can never be maintained if, through the perfidy of the retailer who cuts prices for his own ulterior purposes, the manufacturer is forced to compete in prices with goods of his own production, while the retailer recoups his losses on the cut price by the sale of other articles, at, or above, their reasonable price. It is a fallacy to assume that the price cutter pockets the loss. The public makes it up on other purchases. The

manufacturer alone is injured, except as the public is also injured through the manufacturer's inability, in the face of cut prices, to maintain the excellence of his product. Fixing the price on all brands of high grade flour is a very different thing from fixing the price on one brand of high grade flour. The one means the destruction of all competition and of all incentive to increased excellence. The other means heightened competition and intensified incentive to increased excellence. It would not do to say that the manufacturer has no interests to protect by contact in the goods after he has sold them. They are personally identified and morally guaranteed by his mark and advertisement."

The state of New Jersey enacted a law in the spring of 1913, legalizing price-maintenance. Since this is the first enactment of this kind in this country, the statute is quoted in full:

An Act to Prevent Unfair Competition, and Unfair Trade Practices

"Be it enacted by the Senate and General Assembly of the State of New Jersey. It shall be unlawful for any merchant, firm, or corporation, for the purpose of attracting trade for other goods, to appropriate for his or their own ends a name, brand, trade-mark, reputation or good will of any maker in whose product said merchant, firm or corporation deals, or to discriminate against the same, by depreciating the value of such products in the public mind, or by misrepresentation as to value or quality or by *price inducement* or by unfair discrimination between buyers, or in any other manner whatsoever, except in cases where said goods do not carry any notice prohibiting such practice, and excepting in case of a receiver's sale, or a sale by a concern going out of business.

"Any person, firm, or corporation violating this act shall be liable at the suit of the maker of such branded or trade-marked goods, or any other injured person, to an injunction against such practices, and shall be liable in such suit for all damages directly or indirectly caused to the maker by such practices, which said damages may be increased threefold, in the discretion of the Court.

"This act shall take effect immediately" (April 1, 1913).

In the latter part of the 90's, an attempt was made to read the right to maintain resale prices into the Copyright and Patent Acts, but in recent decisions of five judges against four, the Supreme Court has decided that the patent and copyright acts do not give this right to the holders of patents or copyrights. In deciding thus the court has probably acted in a thoroughly logical manner. Certainly Congress did not have price-maintenance in mind when these acts were

passed. Price-standardization was then an undreamed of need of business. Thus the decisions have little or no significance, so far as the question of the right or wrong of price-maintenance is concerned. They have merely settled technical legal points.

A decision of a Federal court in 1896, known as the "Button Fastner Case" (Heaton Peninsular Button Fastner Co. v. Eureka Specialty Co., 77 Fed. 228) gave to manufacturers who desired to employ the price-maintenance policy the belief that price-maintenance could be applied by law under the Patent Act. In this case a manufacturer and patentee of a machine used in fastening shoe buttons by means of metallic staples, sold the machine to shoe dealers all over the country with the limitation that no other staples than those made and sold by this company should be used in the machine. The staples were not patented and could easily be made. A rival concern began putting out a supply, and the button fastener company sought to restrain this concern as infringers of its patent right, the "sole right to *make, use,* and *sell*" their patented product. The Federal court held that the "sole right to use" gave the patentee the privilege of selling that right with restrictions as to what could be used with the patented machine and granted an injunction against the rival staple manufacturer.

It was thought by those who wished to market their goods under maintained price rules that, under this decision if an article were patented, its resale price could be fixed by the patentee. In accordance with this view manufacturers of patented specialties began soon after to stamp their goods with notices to the effect that retail prices named by the producer must be charged. The opponents of price-maintenance, some department stores, the so-called cut-rate stores, and the mail order houses, were loath to follow the instructions in these resale notices, and trouble resulted. In 1903 the first price-maintenance case under the Patent Act was tried, and was decided in favor of price-maintenance. This case was the Victor Talking Machine Company v. Fair Department Store of Chicago (123 Fed. 424). More than a score of similar cases came up in the next six or seven years in Federal and State courts, most all of which were decided in a similar manner, that is, in favor of price-maintenance.

The Copyright Act was worded in a manner much the same as the Patent Act and it was therefore supposed that it also gave the right to restrict the resale prices as well as the Patent Act. Under this supposition, the American Publishers' Association, including 75 per cent of the book publishers of the country, was organized to prevent price-cutting in the selling of books. The first cases were brought both by and against the R. H. Macy Department Store, of New York City.

Two suits, begun by Bobbs-Merrill and Scribners (Bobbs-Merrill Co. v. Strauss, 210 U. S. 339), against this store were pushed to the Supreme Court of the United States, and there it was decided in 1908 that the Copyright Act did not give to the publisher the right to fix the resale price by notice printed on the back covers of the books.

Another case followed in the U. S. Supreme Court in 1911, the Dr. Miles Medical Co. v. J. D. Park & Sons Co. (220 U. S. 373). The Miles medicines were sold to dealers with price-maintenance restrictions. J. D. Park & Sons Co., wholesale druggists, obtained supplies of the Miles medicines and sold them to retailers, who in turn sold them at cut prices to the public, just as cut price druggists are now doing, and for exactly the same reasons, merely to attract trade and to sell other goods upon which large profits could be obtained. The Supreme Court held that price-maintenance in this case, and as effected by the Dr. Miles Medical Company constituted unreasonable restraint of trade under the Sherman Anti-Trust Act.

On March 11, 1912, the United States Supreme Court decided a case known as Henry v. A. B. Dick & Co. (224 U. S. 1) which had an indirect bearing on the price-maintenance question. The court upheld the A. B. Dick Company in its restrictions on the use of the mimeograph, with the stencil paper, ink, and other supplies made only by Dick & Co., as a patent right. It was believed by many that this decision indicated that there would no longer be any question that under the patent law, the owner of a patent would have the power of fixing resale prices, and manufacturers who were not producing patented articles but who wished to maintain prices began to look around for something to patent in connection with their product that would bring them under the protection of the Patent Act. One of these was the Kellogg Toasted Corn Flake Company, which patented its package or container and is seeking to maintain the prices of its corn flakes under the patent law.

But hope for price-maintenance, based on the Dick decision, was soon destroyed. At the time the Dick decision was rendered, there were only eight judges on the bench and one of these did not take part in the case. Of the seven judges who listened to the case, four, a majority, concurred in the opinion of the court, while three dissented.

In the next case to come before the court, affecting price-maintenance under the patent law, known as "The Sanatogen Case," Bauer Chemical Co. v. O'Donnell (229 U. S. 1, May 26, 1913), the full court of nine judges took part. The three judges who dissented in the Dick case were joined by the two who had not taken part in that case, thus

making a majority of five against price-maintenance. Several cases have since been tried but the court in each case has held to the views expressed in the Sanatogen case.

The European courts seem to sustain and enforce price-maintenance contracts uniformly.

Denmark has a statute specifically permitting price-maintenance. This act, passed in June, 1912, reads as follows:

"It is also forbidden to sell, or offer for sale, goods in original wrappers from producers or jobbers, upon which their fixed prices for the retail trade have been indicated, at a lower price, unless the sale is of the kind mentioned in section 6 (namely, sales of damaged goods, sales growing out of going out of business, removal, etc.) or unless the permission of the producer or jobber or other sanction equal thereto has been granted. Violations may, according to circumstances, be punished by fine of not more than 2,000 kroner.

"Where violations of this law have taken place, and any individual, person, or business has suffered thereby, the courts are, while prosecuting the case originating in the violations, warranted in awarding an indemnity of not more than 1,000 kroner to the person or business injured, without regard to the fact that proof as to the extent of the damage cannot be produced." (Sec. 15.)

Price-maintenance contracts were enforced under the decisions of English courts in the following cases:

Elliman Sons & Co. *v.* Carrington & Sons, 2 Ch. Div. 275 (1901).
National Phonograph Co. *v.* Edison-Bell Co., 1 Ch. Div. 335 (1908).
Dunlop Pneumatic Tyre Co., Ltd., *v.* Selfridge & Co., Ltd., 29 T. L. R. 270 (1913).
Ford Motor Co. *v.* Armstrong, decided in 1914, not yet reported.
Dunlop Pneumatic Tyre Co., Ltd., *v.* New Garage Co., decided July 1, 1914, not yet reported.

German courts have likewise favored price-maintenance.

Jandorf *v.* Incorporated Assn. of Manufacturers of Branded Articles; Berlin Geschaftsnummer, 73.0, 179.05, 48 VI, 489.06.

Efforts are being made at the present writing, May, 1915, to get national legislation permitting price-maintenance. The Stevens Bill, H. R. 13,305, introduced in Congress February 12, 1914, provides that contracts for the sale of trade-marked or branded merchandise for the purpose of prescribing uniform resale prices shall be legal under certain conditions and restrictions. Another bill, known as the Metz

Bill, embodying similar features but with fewer restrictions was introduced at about the same time.

The American Fair Trade League, an organization of manufacturers, wholesalers, retailers, and consumers, with headquarters in New York City, was formed in 1913 and has since actively worked for the passage of the Stevens Bill. This organization has had the active support of such people as Louis D. Brandeis; Mrs. Christine Frederick, Consulting Editor of *Ladies' Home Journal;* Mrs. Julian Heath, President of the National Housewives' League; Alfred D. Woodruff, Food Supply Expert of the New York Association for Improving the Conditions of the Poor; Dr. Lee Galloway, New York University; Dr. Thomas Conway, Jr., University of Pennsylvania; as well as a large number of prominent men engaged in various lines of business.

The Chamber of Commerce of the United States of America, at its annual meeting in 1914, provided for the organization of a special committee on the maintenance of resale prices to study and analyze the questions involved.

This committee, as originally appointed, was composed of Professor Paul T. Cherington, Harvard University, Chairman; Geo. M. Courts, Galveston, Texas, President of United Typothetae and Franklin Clubs of America; Henry B. Joy, of Packard Motor Car Company, Detroit, Mich.; F. W. Whitcher, of Frank W. Whitcher Co., 14 Albany St., Boston, Mass.; Professor Paul H. Nystrom, University of Minnesota; Charles A. Stix, of Stix, Baer & Fuller Dry Goods Co., St. Louis, Mo.; Edward S. Rogers, Attorney, Chicago, Ill.; Frank H. Armstrong, of Reid Murdock & Co., Chicago, Ill.; James F. Finneran, of National Association of Retail Druggists, Boston, Mass. Later the name of F. H. Rike, President of the Rike-Kumler Co., Dayton, Ohio, was added.

This committee held a meeting at Washington, February 2 and 3, 1915, at which a preliminary report was made. Upon instructions from the Chamber, the committee continued its work, and prepared to present its first complete report in December, 1915.

INDEX

I

J

K

L

M

3.84

26) 100.00

78

220

208

120

104

16